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TRANSCRIPT OF RECORD

Supreme Court of the United States

OCTOBER TERM, 1944

No. 62

SPECTOR MOTOR SERVICE, INC., PETITIONER,

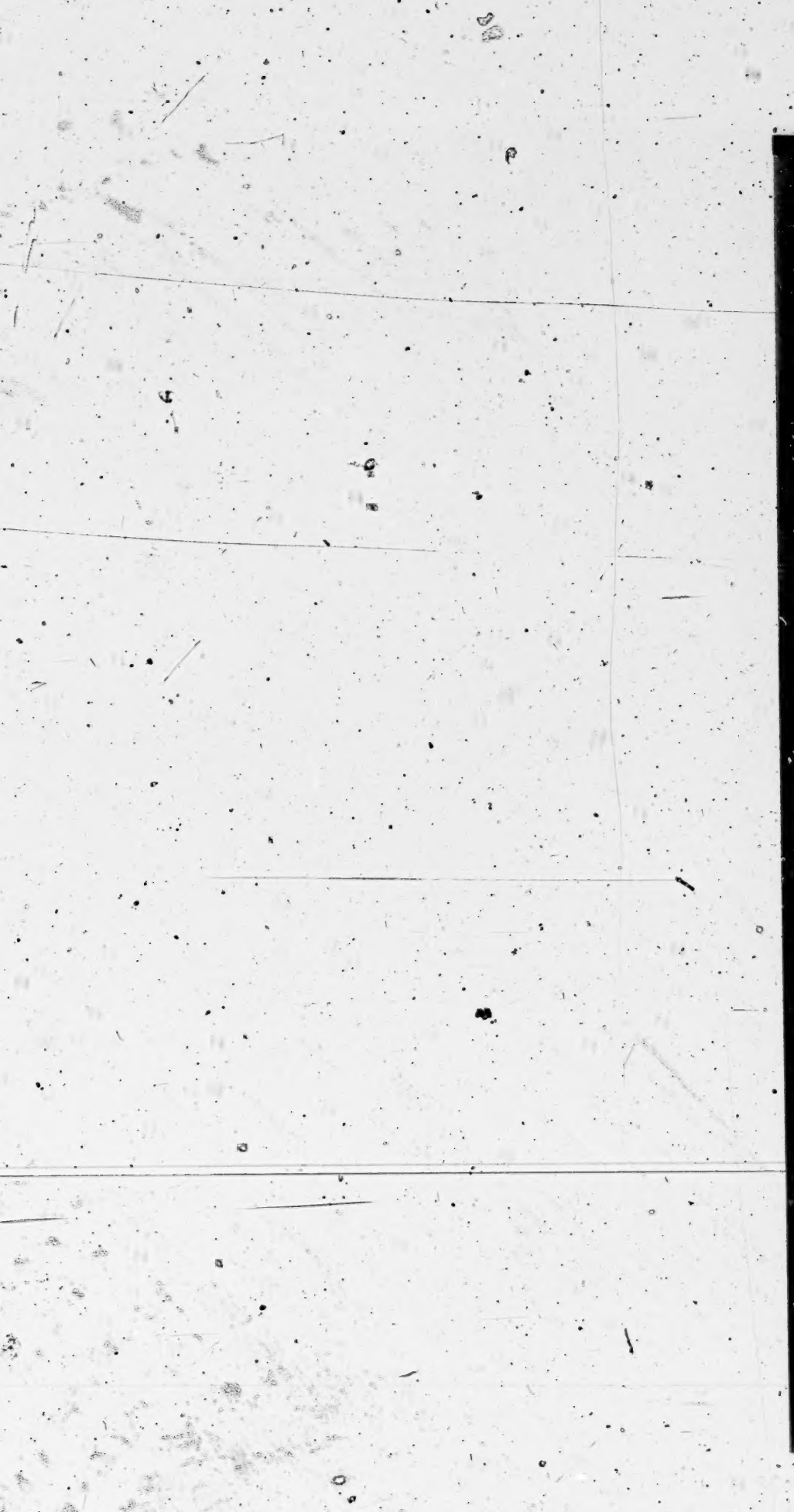
vs.

**CHARLES J. McLAUGHLIN, TAX COMMISSIONER,
WALTER W. WALSH, SUBSTITUTED DEFEND-
ANT**

**ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT
OF APPEALS FOR THE SECOND CIRCUIT**

PETITION FOR CERTIORARI FILED APRIL 18, 1944.

CERTIORARI GRANTED MAY 22, 1944.



SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1944

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vs.

CHARLES J. McLAUGHLIN, TAX COMMISSIONER,
WALTER W. WALSH, SUBSTITUTED DEFEND-
ANT

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT
OF APPEALS FOR THE SECOND CIRCUIT

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[fol. 1]

**IN UNITED STATES DISTRICT COURT, DISTRICT OF
CONNECTICUT**

Civil Action File No. 723

SPECTOR MOTOR SERVICE, INC., a Corporation,

v.

CHARLES J. McLAUGHLIN, Tax Commissioner; WALTER W.
WALSH, Substituted Defendant

STATEMENT UNDER C. C. A. RULE 13, PARAGRAPH 4

The plaintiff at the time of the bringing of this action was a Missouri corporation, and the defendant, Charles J. McLaughlin, was Tax Commissioner of the State of Connecticut and was succeeded as Tax Commissioner of the State of Connecticut during the pendency of this action by Walter W. Walsh, present Tax Commissioner of the State of Connecticut.

All hearings were had before the Honorable J. Joseph Smith.

There has been a change in the parties to this action in that Charles J. McLaughlin, Tax Commissioner, the originally named defendant, was succeeded by Walter W. Walsh as Tax Commissioner of the State of Connecticut and Walter W. Walsh, Tax Commissioner, was substituted by order of the District Court as party defendant in lieu of Charles J. McLaughlin.

No questions were referred to Commissioners, Masters or Referees.

[fol. 2] The following were the material entries in this case:

1942

March 9 Summons and Complaint praying for an injunction restraining the defendant from collecting assessments and penalties and for an adjudication as to the liability, if any, of the plaintiff under the Corporation Business Tax Act of the State of Connecticut; further legal or equitable relief; costs and disbursements to the plaintiff.

March 18 Answer filed.

June 15 Amendment to complaint filed.

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1942

June 16 Hearing had.
Sept. 3 Motion and order substituting party defendant.
August 27 Brief for defendant filed.
Oct. 28 Application for permission to submit additional evidence.
Nov. 6 Hearing had.
Nov. 13 Opinion filed. Finding of fact and conclusions of law filed. (Smith, J.).
Dec. 2 Judgment filed and entered. (Smith, J.).

1943

Jan. 29 Notice of appeal filed.
Feb. 5 Designation of contents of record on appeal filed.
Feb. 5 Order of Court re withdrawal of Exhibits for Transmission to Circuit Court of Appeals for the Second Circuit filed.
Feb. 19 Petition for an Order Extending Time for Docketing Record to April 30, 1943 filed.

[fol. 3] IN UNITED STATES DISTRICT COURT

[Title omitted]

SUMMONS

To the above named Defendant:

You are hereby summoned and required to serve upon Day, Berry & Howard, plaintiff's attorney, whose address is 750 Main Street, Hartford, Connecticut an answer to the complaint which is herewith served upon you, within 20 days after service of this summons upon you, exclusive of the day of service. If you fail to do so, judgment by default will be taken against you for the relief demanded in the complaint.

C. E. Pickett, Clerk of Court, by C. A. Stevens, Deputy Clerk.

Date: March 9, 1942.

[fol. 4] IN UNITED STATES DISTRICT COURT FOR THE DISTRICT
OF CONNECTICUT

723 Civil

SPECTOR MOTOR SERVICE, Inc., a Corporation, Plaintiff,

v.

CHARLES J. McLAUGHLIN, Tax Commissioner, Defendant

COMPLAINT

1. The plaintiff is a corporation incorporated under the laws of the State of Missouri and the defendant is a citizen of the State of Connecticut and a resident of the Town of West Hartford in said State. The matter in controversy exceeds, exclusive of interest and costs, the sum of \$3,000.00.

2. This action arises also under the Constitution of the United States, Article I, Section 8, and under Article XIV, Section 1 of the Amendments to the Constitution of the United States. The matter in controversy exceeds, exclusive of interest and costs, the sum of \$3,000.00.

3. This action arises also under section 274d of the Judicial Code (28 U. S. C. A., Sec. 400), the parties being of different states, as aforesaid, and the matter in controversy exceeding, exclusive of interests and costs, the sum of \$3,000.00.

4. Under the laws of Connecticut, the plaintiff in appealing from the tax assessment hereinafter complained of is precluded from attacking in the State courts the constitutionality of the statute, because the statute which imposes the tax also provides for the appeal and likewise is precluded from availing itself in the State courts of any other remedy [fol. 5] provided by said statute. Under the law of Connecticut the plaintiff is precluded from enjoining in the State courts the collection of said tax assessment.

5. The said statute also provides for severe pains and penalties for the non-payment of said assessment and for the failure returns. The plaintiff has neither paid the tax nor filed returns for the years 1936-1940. The defendant has already made demand for an additional 25% of the total taxes for those years as computed by him as a penalty, together with interest, or a total penalty of \$1,672.73, as of

January 7, 1942, and threatens to place a lien on such of plaintiff's property as may be found in Connecticut, all of which will result in a substantial impairment of the plaintiff's interstate business. In addition, the said taxing statute provides that failure to file a return with the defendant for two consecutive years shall cause a forfeiture of the plaintiff's corporate rights and powers.

6. The plaintiff has no plain speedy and efficient remedy at law or in equity in the courts of the State of Connecticut and the collection of said assessment by the means provided in said statute and the imposition of its penalties will result in irreparable harm to it.

7. The plaintiff was incorporated under the laws of the State of Missouri on June 17, 1933, and formerly maintained its principal office at St. Louis, Missouri, but at present maintains it at Chicago, Illinois. At all times it has been and is engaged in the carriage of freight by motor trucks which it leases from others.

8. The plaintiff has for some years past maintained an office and terminal at New Britain, Connecticut, and a terminal at Bridgeport, Connecticut.

9. The business transacted in Connecticut is and at all times has been entirely interstate in character, in that all the facilities of the plaintiff corporation in this state are and have been employed in forwarding freight from points in the State of Connecticut to points outside the State of Connecticut, or from points outside the State of Connecticut to points in the State of Connecticut.

10. The plaintiff is not and has not been authorized or qualified to carry on an intra state motor carrier business within the State of Connecticut but has been and is authorized to carry on an exclusively interstate motor carrier business through the State of Connecticut.

11. Section 418c of the Cumulative Supplement to the General Statutes, which became law on July 1, 1935, imposed on every corporation "carrying on business in this state" (with certain exceptions not here material) "a tax or excise upon its franchise for the privilege of carrying on or doing business within the state."

12. Purporting to act under said statute, the defendant has assessed the plaintiff the sum of \$618.36 as the tax due

from the plaintiff for the year ending May 31, 1936, and the sum of \$937.98 as the tax due from the plaintiff for the year ending May 31, 1937.

13. Section 354e of the 1939 Supplement to the General Statutes, which became law on July 1, 1937, imposed on every corporation "carrying on or having the right to carry on business in this state" (with certain exceptions not here material) "a tax or excise upon its franchise for the privilege of carrying on or doing business within the state."

14. Purporting to act under said statute, the defendant has assessed the plaintiff the sum of \$1,113.56 as the tax due from the plaintiff for the year ending May 31, 1938, and the sum of \$698.94 as the tax due for the six months period ending December 31, 1938, and the sum of \$1,407.85 as the tax due for the year ending December 31, 1939, and the sum of \$1,346.08 as the tax due for the year ending December 31, 1940.

15. With penalties demanded and interest demanded, the assessments heretofore described aggregate \$7,795.50 as of January 7, 1942.

[fol. 7] 16. Said assessments and penalties are illegal and void (1) because they are a burden to and a direct tax upon interstate commerce in violation of Article I, Section 8, and of Article XIV, Section 1, of the Amendments to the Constitution of the United States, (2) because as applied to the plaintiff, they are unfair and discriminatory and in violation of both said constitutional provisions and in violation of Section 1 and 12 of Article I of the Constitution of the State of Connecticut, in that they are based on a computation which disregards one of the plaintiff's major operating costs, to wit: the rental paid by the plaintiff for trucks hired by it from others, (3) because they are not authorized by the statute under which the assessments were purportedly made, and (4) because they are based on inaccurate computations.

Wherefore the plaintiff prays

(1) that the defendant and his agents and subordinates be enjoined from enforcing or collecting said assessments and penalties and from otherwise proceeding against the plaintiff for failure to pay said assessments and penalties and

for failure to file tax returns under the so-called Corporation Business Tax Act;

(2), that an adjudication be had as to the liability, if any, of the plaintiff under the so-called Corporation Business Tax Act;

(3) that the Court grant such other relief, legal or equitable, as may be proper in the premises;

(4) that the court grant a decree of costs and lawful disbursements to the plaintiff.

Plaintiff, by Cyril Coleman, Day, Berry & Howard,
Its Attorneys

Address: 750 Main St., Hartford, Conn.

[fol. 8] IN UNITED STATES DISTRICT COURT

[Title omitted]

ANSWER—March 18, 1942

1. Paragraphs 1, 2, 3, 4, 5, 6, 7, 8, 11, 12, 13, 14 and 15 of the Plaintiff's Complaint in the above entitled action are hereby admitted.

2. Paragraphs 9, 10 and 16 of the Plaintiff's Complaint in the above entitled action are hereby denied.

The Defendant, by Francis A. Pallotti, Attorney General; Leo V. Gaffney, Assistant Attorney General.

[fol. 9] IN UNITED STATES DISTRICT COURT

[Title omitted]

AMENDMENT TO COMPLAINT—June 15, 1942

The plaintiff amends its complaint by substituting for paragraph 16 in its original complaint the following:

16. Said assessments and penalties are illegal and void (1) because they are a burden to and a direct tax upon interstate commerce in violation of Article I, Section 8, of the Constitution of the United States and of Article

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XIV, Section 1, of the Amendments thereto, (2) because as applied to the plaintiff they are unfair and discriminatory and in violation of both said Constitutional provisions and in violation of Sections 1 and 12 of Article I of the Constitution of the State of Connecticut, in that they are based on a computation which disregards one of the plaintiff's major operating costs, to wit: The rental paid by the plaintiff for trucks hired by it from others and in that they are assessed unfairly and inequitably on the plaintiff as compared to other persons or corporations engaged in similar or comparable business, (3) because they are made by the defendant, an officer of the executive branch of the State of Connecticut acting in a legislative capacity in violation of Article II of the Constitution of the State of Connecticut and of Article XIV, Section 1, of the Amendments to the Constitution of the United States, in that the statutes complained of delegate to the defendant tax commissioner the power to determine a method of allocation of income arbitrarily as he sees fit, [fol. 10] (4) because they are not authorized by the statute under which the assessments were purportedly made, and (5) because they are based on inaccurate computations.

Plaintiff, by Day, Berry & Howard, its Attorneys.

[fol. 11] IN UNITED STATES DISTRICT COURT

[Title omitted]

MOTION TO SUBSTITUTE PARTY DEFENDANT—September 3, 1942

The plaintiff in the above entitled action represents that Charles J. McLaughlin has resigned his office as Tax Commissioner of the State of Connecticut, and has been succeeded in that office by Walter W. Walsh, a citizen and resident of Connecticut.

Wherefore, the plaintiff prays that an order may enter substituting the said Walter W. Walsh, Tax Commissioner of the State of Connecticut, as party defendant in lieu of Charles J. McLaughlin.

Plaintiff, by Day, Berry & Howard, Its Attorneys.

[fol. 12] IN UNITED STATES DISTRICT COURT

[Title omitted]

ORDER SUBSTITUTING PARTY DEFENDANT—November 6, 1942.

Upon the foregoing application, it is hereby ordered that Walter W. Walsh, a citizen and resident of the State of Connecticut, Tax Commissioner of the State of Connecticut, be substituted as party defendant in lieu of Charles J. McLaughlin.

J. Joseph Smith, United States District Judge.

[fol. 13] IN UNITED STATES DISTRICT COURT, DISTRICT OF
CONNECTICUT

Hartford, Connecticut

Tuesday, June 16, 1942, 3:55 P. M.

Civil Action. File No. 723

SPECTOR MOTOR SERVICE, INC., a Corporation, Plaintiff.

VS.

CHARLES J. McLAUGHLIN, *Tax Commissioner*, Defendant

STATEMENT OF EVIDENCE

Before Honorable J. Joseph Smith, District Judge

APPEARANCES:

For the Plaintiff:

Day, Berry & Howard, Esqs., 750 Main Street,
Hartford, Connecticut, by Cyril Coleman, Esq.;
Nair & Nair, Esqs., City Hall Building, New Britain,
Connecticut, by Israel Nair, Esq.

For the Defendant:

Honorable Francis A. Pallotti, Attorney General,
by Leo V. Gaffney, Assistant Attorney General.

Mr. Coleman: Your Honor, I have an amendment to the complaint to file with the clerk or with your Honor as you see fit, and a copy has been given to Mr. Gaffney and he

has no objection, as I understand. (Handing paper to the [fol. 14] Court.) I also am filing at this time a trial memorandum. This is not intended, your Honor, as an exhaustive brief on the case, but I thought it might aid in following the evidence because it has our claims of fact and law briefly set out. (Handing paper to the Court.)

Is your Honor familiar with the pleadings or would you like the pleadings read?

(The Court referred to paper.)

The Court: You may proceed.

Mr. Coleman: Your Honor, I offer as the plaintiff's first exhibit a certificate signed by Chase Going Woodhouse, Secretary of the State of Connecticut, certifying to the qualifications of Specter Motor Service, Incorporated.

Clerk Pickett: Exhibit 1.

Mr. Coleman: I understand there is no objection to it.

(*Plaintiff's Exhibit 1: Certificate of Secretary of State dated May 26, 1942.*)

Mr. Coleman: And I offer, your Honor, as Exhibit 2, photostatic copies of papers filed by the plaintiff in Missouri which is its home, certified copies of those papers under the seal of Chase Going Woodhouse indicating that such papers have been filed also in the office of the Secretary of the State of Connecticut.

(*Plaintiff's Exhibit 2: Photostatic copy of charter statement and appointment of secretary as attorney, filed June 11, 1934.*)

Mr. Coleman: I am offering, your Honor, first of all a temporary permit, issued by the Public Utilities Commission, a certified copy of that permit issued on September 30, 1936. I offer that certified copy.

Mr. Gaffney: The qualifications of the admission that I make, your Honor, are that I have no objection to it being received as a fact of the issuance of the temporary permit, but not for the proof of the facts contained therein.

Mr. Coleman: Your Honor, I do not know just what the limitation means. I claim it for all purposes, as showing [fols. 15] the extent of our legal operation in Connecticut. That is what I claim it for.

The Court: You claim that the extent of the legal operation is in issue?

Mr. Coleman: That is right, your Honor, and on that issue I think this—

The Court: Under the question of tax on the corporation having a right to do business.

Mr. Coleman: That is right.

Mr. Gaffney: There is no doubt about that. Their right to do business in the state is not questioned, your Honor.

The Court: The certificate, however, may be evidence as to that point.

Mr. Coleman: I may say that it is our claim that this certificate, which I am asking to go in, limits our business to an interstate business exclusively, and for that purpose I wish it to go in.

The Court: It may be admitted.

(*Plaintiff's Exhibit 3*: Two sheets, Public Utilities Commission, State of Connecticut, temporary permit TN-2.)

Mr. Coleman: And the same offer for Exhibit 4, which is a permanent permit as distinguished from the temporary permit in your Honor's hand.

The Court: It may be admitted.

(*Plaintiff's Exhibit 4*: Two Sheets, Public Utilities Commission, State of Connecticut, permit N-1093.)

Mr. Coleman: Mr. Fisher, would you take the stand, please?

Simon Fisher, called as a witness on behalf of the plaintiff, being first duly sworn by Clerk Pickett, testified as follows:

By Clerk Pickett:

Q. Your full name?

A. Simon Fisher.

Q. Where do you live?

A. 424 Melrose Avenue, Chicago, Illinois.

[fol. 16] Direct examination.

By Mr. Coleman:

Q. You live in Chicago, Illinois, do you, Mr. Fisher?

A. Yes, sir.

Q. At the present time are you connected with the plaintiff corporation, Spector Motor Service?

A. Yes, sir.

Q. What is your capacity with that organization?

A. I am secretary, treasurer and general counsel.

Q. You have been in the past a lawyer in active practice, Mr. Fisher?

A. Yes, sir.

Q. And as a lawyer in active practice what was your first connection with the plaintiff organization?

A. Well, I represented Mr. Spector personally back as far as 1930, and originally drew up the partnership papers between him and Mr. Crabbe, who formed the partnership which was the predecessor of this present corporation. I also incorporated the company for them as attorney, drew up all the corporation papers and handled the incorporation of it.

Q. Were you concerned in the drafting of the corporation papers which appear in plaintiff's Exhibit 2 which you have already seen?

A. Yes, sir. Yes, sir, I was.

Q. When did you retire from active practice as a lawyer?

A. Actually actively in June of 1938, although I continued to handle some business in St. Louis up until about February of '39, after my connection with the Company, although it was very minor.

Q. Are you a member of the Bar of the State of Missouri?

A. Yes, sir, I am.

Q. When did you make an official connection as an officer of the plaintiff corporation?

A. In January of 1938 I became secretary of the Company.

Q. From your experience and contacts with the Company, Mr. Fisher, are you of the opinion that you are familiar with its affairs from its inception?

A. Yes, sir, I am.

Q. As the papers before his Honor indicate, the Spector [fol. 17] Corporation was formed as a corporation in what year?

A. In June of 1933.

Q. In June of 1933 when it was incorporated, where was its principal office and place of business?

A. St. Louis, Missouri.

Q. Has there been any change in the intervening years as to the location of the principal office?

A. Well, its principal domicile is still in St. Louis, Missouri. Administrative headquarters have moved to Chicago, Illinois in 1938.

Q. When the corporation was first formed, Mr. Fisher, in 1935, where were its principal sources of business and its principal routes?

A. From St. Louis to New York. That is in 1933?

Q. That is in 1933.

A. From St. Louis to New York.

Q. What type of commerce was engaged in at that time, interstate or intra-state?

A. Interstate. They have never engaged in any intra-state operation of any kind anywhere.

Q. Would you briefly relate to his Honor the expansion of the Company so as to show how its activities came into Connecticut?

A. Well, in the beginning when the operation as we call it—we truckmen call it—was first started, it was essentially a full truckload operation moving so-called perishable freight out of St. Louis, St. Louis being one of the gateways to the West, and South, Southwest, Oklahoma and the other sources of perishable frozen poultry, and eggs and butter, and meat, too, St. Louis itself being an origin point for that type of commodity.

Essentially it was engaged—Mr. Spector was engaged—in the movement of that type of freight both originating at St. Louis and the same type of freight which he received from connecting line carriers coming in from the West at St. Louis to New York, which is the big market for poultry and eggs and butter—was then and perhaps still is—requiring refrigerated trucks. And as the operation grew in volume and the need for better service became apparent, he found that it was necessary for him to find a better type [fol. 18] of equipment and a better type of driver.

There were two ways to get this, first by paying them more money, and second by assuring them of a so-called return load, that is, a return load from New York, on the theory that if they could get back from New York to St. Louis quickly without having to lay around, as they call it, in New York for long periods of time, naturally their personal earning power would be greater.

In addition to that, due to the fact that he was very particular about the type of equipment he wanted, it was necessary to get that, and the field for getting that equipment in those early days was limited. Not having enough capital to purchase that much equipment himself, he naturally had to find it in the hands of the so-called owner-operators or what is sometimes called hired operators.

And it was necessary, in order for him to create a competitive factor with the railroads, who in those early days were almost solely carrying this perishable freight, he found that he had to get these trucks back to his large source of shipping, St. Louis, as quickly as possible. With that in mind, he tried and he did go to New York and made a contract arrangement, that is, an agency arrangement, with a shipping source. At that time there was a so called Freight Forwarding Company, and since that time they have become according to their own claim before the ICC, common carriers by truck themselves.

I drew that agreement, that is, the agreement upon which they would supply shipping to return to St. Louis, return these trucks to St. Louis.

It did not work out very satisfactorily, so, recognizing the necessity for a two-way haul—and he was one of the pioneers, or really the real pioneer, in the concept of a two-way haul, balanced movement between East and West in the trucking business, in the long-haul trucking business—he went to New York and opened a small terminal and hired [fol. 19] some personnel and I think perhaps a representative there.

Q. What year was that that that terminal was opened in New York?

A. I would say that was along about sometime around either the middle or toward the end of 1933.

Q. Were you running into Connecticut, your Company running into Connecticut?

A. At that time we were not. I would say that at that time there was very little going into Connecticut. It may be perhaps, that there may have been some loads going to Boston, Massachusetts which would require the trucks to pass through Connecticut, but essentially there was no freight being delivered into or originating out of Connecticut at that time.

Q: Now Mr. Fisher, after the opening of the terminal in New York, will you go on with the story of the development of the Company, as running into Connecticut?

A. He knew that much of this freight that now started to return to the West was destined for Chicago and that it was not economic to have the truck going from New York to Chicago loaded and then from Chicago down to St. Louis empty. So he set about creating an origin terminal which was very small then, from Chicago, so that he could have a sort of two-pronged operation. And along about in the early part of 1934 he opened a terminal in Chicago.

In the meantime, one of the reasons for the necessity of this expansion being more or less forced on him, was that there was a very gradual transition taking place in the type of operation from a straight truckload perishable operation to what we call an LTL operation, or an LTL movement which is less than truckload. Of course, under a full truckload operation, terminals were not required because the entire truckload of freight is picked up at the storage plant, or if it is dry freight, so called, at the platform of the shipper, and is delivered directly to the door of the consignee. But on LTL freight, or less than truckload freight, there must be a platform at both the origin point and at the [fol. 20] destination point to consolidate these various small shipments for distribution to various consignees in different parts of the city, if it is a large city, or a large industrial or metropolitan area like New York, or to different points like Connecticut, different towns in an area like Connecticut.

The same thing is true in Chicago and in St. Louis.

Q: After 1934 and the opening of the terminal in New York, was a survey of Connecticut made by your organization, through Mr. Spector?

A. Mr. Spector went up there. Of course he would go back and forth in between St. Louis and New York, and on one of the trips that he was in New York he decided to see whether or not he could get some outlet for these trucks. The St. Louis movement was getting movement East, was so much heavier than his possibilities of returning them West, that he thought he would look into seeing if he could not establish another origin point. And he went up into Connecticut, originally intending to make one of these agency arrangements with a local carrier here in Hartford as a source of supply; and then went down to New Britain.

feeling that this was a highly industrialized area and that there would be a source of supply.

His original arrangements, and to a great extent that is still true, were with connecting line carriers here in Connecticut who participate in our tariff and who have their own business here and who pick up this freight in various parts of the state, bringing it into our terminal, and they act as the origin carrier and the origin-transfer carrier. We reconsolidate the freight at our terminals and move it over our long-haul operation to the West. It is all interstate business, of course.

Q. When was the terminal opened in New Britain, approximately?

A. The New Britain terminal was likewise opened—my best recollection is along about April of 1934, I would say; might have been a little earlier. I think it was around about that time.

[fol. 21] Q. And in opening the terminal did you open the terminal on your own land or on leased property?

A. We leased the terminal.

Q. Was there any connection between your qualifying to do business in the Secretary of State's office as shown by Plaintiff's Exhibit 1 and the lease executed with your landlord in Connecticut? A. Well, the landlord who owned this building at that time knew very little about truckmen and particularly about Mr. Spector and our company, and he insisted that he wanted—since it was a corporation, by then—he wanted the Company to be qualified. He would not execute a lease to us, give us a lease, unless we were licensed to do business as they called it, in Connecticut. That was the only reason for securing this license to do business in Connecticut as a foreign corporation.

Q. As a result of qualifying you were subject to the jurisdiction of Connecticut Courts?

A. That is right. That is, apparently, and so he said, that is why he wanted it.

Q. Under your supervision were applications made to the Public Utilities Commission as indicated by Plaintiff's Exhibits 3 and 4?

A. Yes, sir.

Q. Public Utilities Commission of the State of Connecticut, I mean.

A. Yes, sir, they were.

Q. Permits as in the form before you, in your hands, were issued; is that so?

A. Yes, sir.

Q. Did you ever make any application to do an intra-state business in the State of Connecticut?

A. No, sir, we did not.

Q. At my request have you prepared a system map of the Spector Motor Service?

A. Yes, sir.

Q. Was it prepared under your supervision?

A. Yes, sir.

Mr. Coleman: I offer a map here without objection, your Honor.

Clerk Pickett: Plaintiff's Exhibit 5.

The Court: It may be marked.

(Plaintiff's Exhibit 5: Map of plaintiff's terminals, inter-[fol. 22] mediate points and regular routes in Illinois, Indiana, Ohio, New York, Pennsylvania, Maryland, New Jersey, Massachusetts, Connecticut and Rhode Island.)

By Mr. Coleman:

Q. Now, Mr. Fisher, briefly what does Exhibit 5 contain? What does it show?

A. It is the map of the routes on which the operating authority of Spector Motor Service, Incorporated, as granted by the Interstate Commerce Commission, is based.

Q. Does it indicate the routes over which Spector Motor Service does operate?

A. These are the regular routes over which we actually operate according to the authority of the Interstate Commerce Commission.

Q. Now I notice that the eastern area is sort of blocked in or confined by red lines, and there is a corresponding area in the West which is blocked in by red lines. Would you explain to his Honor what the significance of those red lines is?

A. Well, our operating authority is essentially and solely an East to West movement, and in the converse, a West to East. The red lines on the right are in the East. They define the territory to which and from which we operate from the East to the territory in the West which is within the red lines there, the authority being that we may serve

points in this territory on the one hand, to points and places in the western area as delimited by that red line on the other. We may not serve other points within any of these red lines. We may not serve a point, for instance, from New York to Connecticut, or Connecticut within Connecticut, or Connecticut to Massachusetts. We may serve only points and places in this eastern territory on the one hand, to and from points and places in this western territory on the other hand, using these regular routes to get to and from those points and places.

Q. Just as a matter of curiosity, Mr. Fisher, why it is that the authority limits you so that you cannot furnish delivery freight from New York to Connecticut or Connecticut to New York, but that you must use this East to [fol. 23] West system of transportation?

A. The authority that we have been granted is based on the so-called grandfather rights which are what operation we were conducting on June 1, 1935. And on June 1, 1935 this is the operation we were conducting. We were not serving points and places along the eastern or Atlantic seaboard, but we were serving only points and places within this eastern area to and from points and places within the west. We could not go beyond what we were doing on that date. That is our present operating right.

Q. Under the Motor Carrier Act you were, so to speak, frozen into the type of activity you were doing June 1, 1935?

A. That is right. Under Section 206 of the Federal Motor Carrier Act of '35 we were limited to the operation as a common carrier that we were carrying on on June 1, 1935.

Mr. Coleman: I would like to offer at this time what is called a compliance order, specifically a permit issued by the ICC for the operation of this carrier.

Clerk Pickett: 6.

The Court: Exhibit 6.

(Plaintiff's Exhibit 6: Interstate Commerce Commission, No. MC-69116, Spector Motor Service, Inc., Common Carrier Application.)

By Mr. Coleman:

Q. Briefly, what is Plaintiff's Exhibit 6 which I have called the compliance order, Mr. Fisher?

A. Pardon me, Judge. (Witness referred to paper.) This is an order of Division 5—

Q. Would you let his Honor have the one that is marked and you can have this copy?

A. Yes. This is an order of Division 5 of the Interstate Commerce Commission in which our operating rights as a common carrier under the Federal Motor Carrier Act of 1935, have, as at this time, been defined and our operating authority granted as limited in what is called appendix A attached to the order, appendix A being a description of the regular routes over which we are authorized to operate.

[fol. 24] Q. Does that compliance order, so called, define your rights as you have described them in reference to the red outlined map there?

A. Yes, sir, that is right.

Q. Now I notice on the last page which is the order, Mr. Fisher, the order bears a comparatively recent date, some time in 1942.

A. Yes, sir. That is the date upon which the Commission handed down its decision and this order. This is the result of a series of hearings which have been going on since February—since the date of the filing of the original grandfather application which was February 10, 1936.

Q. Since the filing of your application in 1936, under what authority have you been operating up to the time of the issuance of this compliance order?

A. We have been operating under the authority of the Federal Motor Carrier Act of 1935 and the grandfather clause, so-called grandfather clause thereunder, which provided that if a so-called grandfather application is filed by February 12, 1936, then the carrier has a right to continue the operations claimed in that application until the Commission either denies them or limits them or modifies them.

Q. The compliance order which the ICC has finally issued, can you tell his Honor whether or not that substantially confirms the rights which you have been operating under, under the grandfather clause?

A. Yes, sir, it does, substantially.

Q. At my request did you make or cause to be made under your supervision a series of state maps showing the mileages operated by the Spector Motor Service through those states?

A. Showing the routes and the mileages of those routes through those states.

Mr. Coleman: This is a group. They probably ought to be marked individually.

Clerk Pickett: Exhibit 7-1, 2, 3, 4, 5, 6, 7, 8.

Mr. Coleman: All right.

(Plaintiff's Exhibits 7-1, 7-2, 7-3, 7-4, 7-5, 7-6, 7-7, and 7-8; Eight Spector Motor Service, Inc. mileage maps: Illinois, Indiana, Ohio, Pennsylvania, New Jersey, New York, Massachusetts, Connecticut.)

By Mr. Coleman:

Q. In the big system map which we put in evidence first, Mr. Fisher, what authority has prescribed the routes which are indicated by that large system map? What authority?

A. The Interstate Commerce Commission.

Q. As to the routes within the individual states, what authority has prescribed those routes?

A. The Interstate Commerce Commission. This is individualizing the routes of the states on here, separating the states.

By the Court:

Q. There is no difference between these individual routes and the map Exhibit 5?

A. No. It is just picking out these separate states and showing them separately on a map, as a state.

By Mr. Coleman:

Q. Showing you the first map of the individual Connecticut, under your supervision was a computation made of total mileage operated by your Company through the state of Connecticut?

A. Total of the mileages of all the authorized routes, yes.

Q. What is that total?

A. 300 miles approximately.

Q. Is there any other additional information to be gathered from that legend?

A. Well, there are alternate routes of the mileage of certain routes from Bridgeport to New York, not New York City, but to the state line of the state of New York from Bridgeport, and also from New Britain to the Mas-

sachusetts border by various routes over which we are authorized to operate, and from New Britain to the New York state border over the routes which we are authorized to operate.

Q. But the Connecticut routes aggregate 300 miles?

A. 300 miles, yes.

Q. I show you the Massachusetts map of the same series. What is the aggregate of the mileages operated by routes [fol. 26] in Massachusetts by Spector Motor Service?

A. 406 miles. The individual mileages both in Connecticut and Massachusetts are the mileage which we would have to traverse over any of our authorized routes in order to go from our two points of origin, our two terminal points, rather, Bridgeport and New Britain, to the Massachusetts border and to the New York State border.

Q. I neglected to ask you about the institution of a terminal in Bridgeport. When was that opened?

A. The Bridgeport terminal was opened sometime in the latter part of 1934 or perhaps the early part of 1935. Although freight was originating out of there and destined into that point for handling there and distribution, it was done through a so-called agency carrier, and later as business developed, Mr. Spector started the basic process of enlarging it into his own terminal, and sent a man down there, a terminal agent there to handle—who set up facilities, in I think with the Connecticut Transfer Company. They leased us space and office, etc., and agreed to give us space for platform handling. And from that we went into our own terminal as business increased.

Q. Since 1934 how many terminals have you had in Connecticut?

A. Since '34, two.

Q. Two. What other terminal points have you in your system?

A. We have Boston, Massachusetts, Saylesville, Rhode Island, Worcester, Massachusetts now, Springfield, Massachusetts, New York City, Newark, New Jersey, Chicago, Illinois, and St. Louis, Missouri.

By Mr. Gaffney:

Q. Would you repeat those, please, again?

A. Saylesville, Rhode Island, Boston, Massachusetts, Worcester, Massachusetts, Springfield, Massachusetts, New York City—

Q. You say they are terminals there?

A. Yes, terminals. Some of them, like Saylesville and Worcester and Springfield are what we call agency terminals in which we are located in another carrier's terminal. [fol. 27] We do not lease our own terminal there. New Britain, Bridgeport and New York we do.

In Newark, New Jersey, we also have a so-called agency terminal. It is a terminal for all purposes for carrying on our carrier operation with the exception that certain services are performed for us by what we call an agency carrier who provides dock facilities and dock handling, etc.

By Mr. Coleman:

Q. Briefly, what is the function of a terminal?

A. The function of a terminal is primarily to act as an operations unit, to be a point for the origin and destination of freight, to consolidate less than truckload shipments and to have traffic and operations personnel there who will direct the movement of freight to and from that point.

By the Court:

Q. Do you have some of these terminals leased and some owned, do I understand?

A. No, we do not own any.

Q. When you referred to the New York one as owned you meant—

A. No, I said, "Our own terminal". I mean one in which we lease the entire terminal and goods and conduct the entire operation of the terminal ~~ourselves~~.

By Mr. Coleman:

Q. If I may pick up these individual maps again, I show you the map of New York and ask you what is the mileage over which the Spector Motor Service operates in New York State?

A. The regular routes have a total mileage of 775 miles.

Q. Showing you New Jersey, over what mileage does the Spector Motor Service operate in that state?

A. The total mileage of the regular routes in New Jersey is 138 miles.

Q. Pennsylvania, over what mileage do you operate in that state?

A. Total mileage of the regular routes in Pennsylvania is 1382 miles.

Q. And in the state of Ohio, over what mileage do you operate?

A. Ohio is 1210 miles of regular routes.

[fol. 28] Q. And in the state of Indiana?

A. Indiana has 1166 miles of regular routes under our ICC authority.

Q. And in the state of Illinois over what mileage does your Company operate?

A. We have a total mileage of regular routes in Illinois of 1551 miles.

Q. What was that, Mr. Fisher?

A. 1551 miles in Illinois.

Q. Have you at my request—

A. I might if I may be permitted—

Q. Yes.

A. I would like to correct one statement I made as to this system map and our right to serve points within this red area. There is only one exception to that. That is we do have the right to serve Chicago to St. Louis. That was the reason of the purchase of a Chicago to St. Louis operation in 1940. In 1940, August of 1940, we bought a line operating between Chicago and St. Louis. That was not a part of our grandfather application, not a part of our rights that were determined in this compliance order that is in evidence here.

Q. But apart from that one exception, it is the only one?

A. That is the only exception.

Q. At my request did you prepare a schedule of mileages through which your Company operates in the various states, and the percentage which the mileage in Connecticut bears to the total?

A. Yes, sir, I did.

(*Plaintiff's Exhibit 8: Four sheets re mileage of Spector Motor Service, Inc.*)

By Mr. Coleman:

Q. Mr. Fisher, I will hand you another copy and ask you if you will explain to his Honor the significance of Plaintiff's Exhibit 8 (Handing paper to the witness).

A. This is a schedule or chart showing the total mileages of all of our authorized routes in all of the states through which or into which we have a right to operate under our authority. On the first page the individual state

mileages are listed and the total of 7,077 miles is also shown. [fol. 29] In the detail the Connecticut mileage is shown at 300 in accordance with the map that I just described, and the percentage of mileage in Connecticut to the mileage of our regular routes outside of Connecticut is 4.23 per cent. The percentage of the mileage outside of Connecticut to the total mileage is 95.77 per cent. We also have listed on the second page the mileages from New Britain, Connecticut to various service points in what we call the western territory, which is shown on the system map by the red lines. We have in the West in addition to our two terminal points at Chicago and St. Louis, we have certain intermediate service points in the states of Illinois and Indiana. We do not have any rights to serve intermediate points in Ohio or Pennsylvania, that is, in any of the territory that is not within those red lines.

Q. What is the distinction between a service point and a terminal?

A. A service point is one at which merely under our authority we have a right to serve, that is, to pick up or deliver freight, in other words, handle freight in and to or from and to that point but at which we do not have a terminal. One of those points, for instance, is Mishawaka, Indiana, or South Bend, where we either pick up full truck-load movements or large shipments of eight, nine, ten or eleven thousand pounds which can be loaded directly from the shipper right onto our over-the-road trailer without the necessity of having to be consolidated on a platform or at a terminal.

Q. First of all, is it permitted under your authority at service points to pick up anything but interstate commerce?

A. No. We have no right to engage in anything but interstate commerce.

Q. Apart from your right, in fact do you engage in anything but interstate commerce?

A. We do not engage in any intrastate commerce anywhere in our system.

Q. Is there any more significant information in that exhibit?

A. The second page has the mileages from New Britain, Connecticut to all their service points in the West, bearing in [fol. 30] mind that we have only one right, to either transport freight from New Britain to these points in the West, or transport freight to New Britain from any of these points.

in the West, showing the routes, the mileage of the routes which we would have to use under our ICC authority, and showing the various mileage from New Britain to each one of these points over those routes, with the Connecticut mileage that would have to be used in order to operate from New Britain, Connecticut to the state border, and also showing on each one of those the percentage of the mileage in Connecticut to the total mileage for each one of those trips as you would say. The same type of information is shown on the third page as to Bridgeport, Connecticut, from our terminal at Bridgeport likewise to the various service and terminal points in the West.

And the fourth page shows the same information from Bridgeport to the service points in the West, using the Pennsylvania turnpike. The third page, showing the Bridgeport routes and mileage, uses what we call our southern route using U. S. highway 22. We also have authority to operate over the Pennsylvania turnpike, and in most instances that will cut down the total mileage from point of origin to point of destination, and we showed that on the fourth page. We do not use the turnpike from New Britain. That is only used from Bridgeport to New York, and then to the turnpike.

Q. Does that conclude an explanation of that exhibit?

A. Unless there is any explanation of the figures. I tried to state what it is. I think it is probably self explanatory.

Q. At my request did you prepare a schedule of the names and the duties of the employees of the Spector Motor at the New Britain office at the present time?

A. Yes, sir, I did.

Q. And does that schedule reflect the situation that has obtained in New Britain in the last few years?

A. Yes, comparatively it does.

Mr. Coleman: I offer now, your Honor, a schedule of Spector Motor Employees at New Britain.

[fol. 31] Clerk Pickett: Exhibit 9.

Mr. Coleman: Which exhibit indicates the names and occupations or duties of the seventeen employees at New Britain.

(Plaintiff's Exhibit 9: Statement entitled "Spector Motor Employees at New Britain office".)

Mr. Coleman: And the next, Exhibit 10, is a schedule of the employees at Bridgeport, including their ten names and their duties.

(*Plaintiff's Exhibit 10: Statement entitled "Spector Motor Service employees at Bridgeport office".*)

Mr. Coleman: And Plaintiff's Exhibit 11, which I now offer, is a schedule showing the percentage of employees in Connecticut to employees outside Connecticut other than over-the-road drivers. (Pause.)

My colleague corrects me. It does not show the percentage. It shows the proportion. The percentage is not exactly figured out.

(*Plaintiff's Exhibit 11: Statement entitled "Administrative and terminal employees, Spector Motor Service, Inc., other than New Britain and Bridgeport".*)

By Mr. Coleman:

Q. If I show you Plaintiff's Exhibit 11 so that the thing may be entirely clarified, what type of employees are covered by that schedule?

A. These are terminal office employees, what we call administrative and terminal employees, which are office employees and dock hands, and in Chicago and New York the local pick-up and delivery drivers—there are no over-the-road drivers, so called, that is, the line-haul drivers; in this list.

Q. The men that are labeled there "dock employees" have nothing to do with shipping, sea shipping or water shipping?

A. No, those are —

Q. That is a name in the trade for —

A. These dock hands, we call our platform—they are more correctly described as our terminal platform; we call [fol. 32] it our dock. It has nothing to do with the harbor docks or something like that. We call them stevedores. Of course these dock hands sometimes are called stevedores, too.

Q. Does the Spector Motor Service own any trucks at the present time?

A. No. Spector Motor Service does not own; has no title to any trucks at the present time.

Q. Has it owned trucks in the course of its existence as a matter of policy?

A. There may have been times when a few trucks were owned, but they were bought for the purpose of resale.

Q. Where are the trucks obtained from, which you use in your operations?

A. Well, from the so-called owner-operators, men who have tractors and trailers of their own, or tractors of their own, and they are lease, so-called leased. An arrangement is made whereby our carrier service is augmented by securing their equipment with the service of a driver and a helper.

Q. Those persons from whom the Spector Motor Service Company leases trucks, includes the Wallace Transportation Company, does it?

A. That is right.

Q. That is one of your lessors?

A. That is right.

Q. The Wallace Transportation Company, what connection has that with officials of your Company?

A. Well, Wallace Transport Company—not Transportation, but Transport Company.

Q. Transport.—

A. —a so-called affiliate—we call it an affiliate—of the Spector Motor, in that Mr. Spector and I and our respective wives personally own all of the stock in the Wallace Transport Company.

Q. In addition to the Wallace Transport Company are there other persons or corporations which lease trucks to your Company?

A. There are other persons, yes. The so-called owner-operators.

[fol. 33] Q. At the present time, is the Spector Motor Company the owner of one or two trucks in New Britain?

A. I think two or perhaps three that are registered in the name of Spector Motor, which are registered in that way in order to comply with the state license regulations of the State of Connecticut, but which actually belong to another person; that is, the person who—one of the individuals who is handling our local pick-up and delivery service for us.

Q. Is the Spector Motor Service holding title under Conditional bill?

A. Yes, I would say so.

Q. Now Mr. Fisher, is the Spector Motor Service at the present time the owner of any real estate in Connecticut?

A. No, sir.

Q. During the period that it has operated and maintained terminals in Connecticut has it owned any real estate in Connecticut?

A. No, sir.

Q. Is there a bank account in Connecticut for the accommodation of the New Britain terminal?

A. Not New Britain, but there is one in Bridgeport.

Q. And what is the function of that bank account in Bridgeport?

A. The purpose of it is to deposit each day the cash collections that are made by the drivers on delivery representing the freight charges on so-called driver collects, and so that the funds can be transferred out to the home office in Chicago, which is done by drawing a check to Spector Motor Service, Incorporated, and sent to the home office as a part of the daily receipts.

Q. Such bills as are collected locally for services rendered by Spector Motor Service Company and paid by check, what happens to those checks?

A. Those are sent each day to the home office. The checks are intact and are sent by mail, air mail, special, every night.

Q. And as to the bank account—

A. That is to the home office in Chicago.

[fol. 34] Q. In Chicago. As to the bank account which is maintained in Bridgeport, is there any person in Connecticut with authority to disburse funds for purposes of the maintenance of the business in Connecticut?

A. No, sir. That is limited to only—the transfer of those funds to the home office.

Q. How are bills paid, bills which are incurred in Connecticut?

A. They are paid in two ways. Most of them are paid by checks drawn on the home office at Chicago like utilities bills and rent, etc. And there are some items—well, no bills are paid by draft, but there are some items drawn by draft on the treasurer of the Company at Chicago.

Q. Where is the rating and billing done?

A. All rating, billing and scripting—well, all rating and billing is done at Chicago and St. Louis.

Mr. Coleman: I think that is all at the present time.

Mr. Gaffney: Does your Honor care to adjourn now?

The Court: We will adjourn till 10:30 tomorrow following arraignments in two criminal cases.

(At 5:01 P. M. a recess was taken until Wednesday, June 17, 1942 at 10:30 A. M.)

Hartford, Connecticut, June 17, 1942.

(The trial was resumed.)

SIMON FISHER, a witness called on behalf of the plaintiff, resumed the stand and testified further as follows:

Mr. Gaffney: Where is the terminal in New Britain?

Mr. Coleman: Before you start cross, I wonder if I could ask the witness one or two more questions which I neglected to ask?

Direct examination (continued).

By Mr. Coleman:

Q. Mr. Fisher, have you any salesmen employed in the State of Connecticut?

A. Well, we have representatives. I suppose in one sense they are called salesmen. They are really representatives who call on various shippers and consignees. They are really ambassadors of good will. That is what they are. They have nothing to sell, except to contact various shippers and consignees and develop public relations with the shipping public.

Q. Of course, your organization is a common carrier?

A. That is right.

Q. And as such is obligated to accept freight from any person who desires to ship it and is willing to pay?

A. That is right.

Q. Have you at my request made up a schedule of personal property and equipment in Connecticut?

A. Yes, sir.

Q. And are you familiar with the value of that equipment?

A. Yes, I am.

Q. How did you get your appreciation and your knowledge of its value?

A. Well, the purchasing, all purchasing of all equipment is under my department; the administrative end of the business, and I have had occasion to approve bills for the purchase of various furniture and fixtures over a period of at least four years, for many years prior to that time; also in the course of practicing law in connection with appraisals of estates, bankrupt and probate court estates.

Q. Now I show you a list which is labeled "Equipment at New Britain". Does that correctly reflect the amount of equipment there located?

A. Yes. This list is taken from our supplies and purchasing department and inventory of equipment and all. Everything is numbered. You will notice numbers on here. Everything is numbered and inventoried.

Q. I show you a second list labeled "Equipment at Bridgeport". Does that correctly describe the equipment that you have there on hand?

A. Yes, that is likewise taken from our records.

(Plaintiff's Exhibit 12: Statement entitled "Equipment at New Britain".)

[fol. 36] (Plaintiff's Exhibit 13: Statement entitled "Equipment at Bridgeport".)

Q. Exhibit 12, Mr. Fisher, is the list of property at New Britain. What in your opinion is the fair value of the equipment there listed?

A. I would say on resale price, present market, anywhere from a thousand to fifteen hundred dollars, possibly.

Q. Of the equipment at Bridgeport what in your opinion is the fair market value of that equipment?

A. That would probably run somewhere I would say in the neighborhood of from \$350 to possibly \$500.

Q. Yesterday, Mr. Fisher, you spoke of the Wallace Company as being the lessor to you of a number of trucks, the corporation, which as I understood your testimony was owned by you and Mr. Spector and your respective wives; is that correct?

A. Stock.

Q. The stock in which is owned. Will you explain to the Court the function of the Wallace corporation and the purpose of its existence?

A. The Wallace Transport Company is an Illinois corporation, and it is the equipment-owning affiliate of Spector Motor Service. When we decided that we had to have what we call company-owned equipment and put a part of our operation within somewhat more direct operational control than theretofore, and went out to buy a fleet of equipment, we had organized this Wallace Transport Company and bought all of this equipment in the name of the Wallace Transport.

The purpose was two-fold. First, we are a Missouri corporation. Spector Motor Service is a Missouri corporation. And because of the conflict in the state licensing regulations between Missouri and Illinois, much litigation had been going on. Several injunction suits were filed against the respective states, not by us but by a large group of operators. One group was about sixty-five; we were in the group.

[Ind. 37]. In addition to that, the fact that while Indiana and Ohio and Illinois had reciprocity between themselves, they did not have reciprocity with Missouri. And, due to this conflict in licensing regulations, unless we would have our trucks registered with Illinois license plates, the weight tax and tire tax in Indiana and the registration tax in Ohio and the flat rate tax in Illinois, would have been so very exorbitant and prohibitive that we could not have operated. And for that reason we worked out, by agreement with the state of Illinois, a licensing of this equipment, and as a matter of fact all of the equipment; even the equipment owned by the so-called hired operators, was also leased to Wallace Transport and subleased under administrative ruling 4 of the ICC to Spector.

But the leasing under the Illinois regulation, licensing regulation, was sufficient to enable them to issue an Illinois license plate. That plate being issued to an Illinois corporation, entitled us to reciprocity through the states of Illinois and Ohio in so far as their weight tax, tire tax and other road taxes were concerned.

Q. The Wallace Corporation was organized under the laws of Illinois; is that right?

A. State of Illinois.

Q. Spector has always been and continues to be a Missouri corporation?

A. That is right.

Q. By having Wallace as the owner of these trucks, as an Illinois corporation, what specific advantage did you obtain?

A. Well, as a Missouri corporation at one time and probably today, we could not—there are two kinds of plates, license plates for trucks in Illinois. There is the mileage plan, which is for weight carrying capacity of our particular trailers, called the T plates. Then there is the X plate, flat rate plan, called the X plate. The T plate is based on 2¢ per mile for every mile traversed in the state of Illinois. As we are situated, the vast proportion of our loads in the West go into and out of Chicago. Comparably, the St. Louis loadings are much lower with the increase of our Chicago business and the growth of the [fol. 38] Company arising out of Chicago, since Mr. Spector moved into Chicago in 1938.

We only run seventeen miles from the Indiana border to our terminal in Chicago, which means thirty-four miles for every round trip, at 2¢ a mile, is 68¢.

Q. That is on the T plates?

A. That is on the T plates. A truck will make about one round trip a week, which will be four and one third round trips a month, which would be about three dollars a month or about fifty dollars a year, while if we had to have the X plate, in other words, if we had the truck registered in the name of a Missouri corporation, Spector Motor, we would have to pay \$250 a year for that same truck.

Q. In other words, the more economical plate would not be issued to a Missouri corporation?

A. That is right. And even if it were issued under the reciprocity agreement that Ohio and Indiana had with Illinois, they had a clause in their reciprocity agreement whereby the Reciprocity Commission could go behind the registration and if they felt that the registration was in the name of a resident of a state with whom or with which they did not have reciprocity, they did not have to honor the Illinois registration.

Then, in addition to that, we wanted to have our fleet operation, from the operational standpoint, segregated away from the carrying operation, that is, the traffic operation, so that we could have a definite segregation of operational costs. While Mr. Spector had had at that time

already eighteen or nineteen years of experience in truck operation, he had not undertaken to operate as large a keet as this in such a short space of time. And in order to get control of the operational costs, we felt that it would be best to have the operation cost in that equipment-owning affiliate. Those were the prime reasons and still are for the Wallace Transport set up.

Incidentally, I might add for clarification that all of the equipment of Wallace Transport is leased to Spector Motor Service, as an entire fleet of equipment under the administrative ruling 4 of the ICC, and the drivers, of course, are, under that ruling, employees of Spector Motor just as they are with the individual hired operator.

Mr. Coleman: I offer at this time the five double sheets which are the assessments issued by the State of Connecticut against the Spector Motor Service. Of course, as I just told Mr. Gaffney, the purpose is to show simply that the assessments were made. We do not, of course, admit that the amounts therein indicated are due.

The Court: It may be admitted.

(Plaintiff's Exhibit 14: Twelve sheets re additional assessments for the years ended December 31, 1940, December 31, 1939, December 31, 1938, May 31, 1938, May 31, 1937, May 31, 1936.)

Mr. Coleman: Your Honor will note, from the statute under which this tax is levied, that the Company is not permitted to deduct from its revenue, from its income, either rent or interest. That is, the base upon which the tax is computed must be its receipts without deduction for such an operating cost as rent or interest.

That leads me to speak to Mr. Gaffney about something that I said this morning, that as a matter of fact the computations which are before your Honor, as issued by the state, do allow as an operational cost sixty per cent, of the sums paid to these independent operators. Is that correct?

Mr. Gaffney: That is right.

Mr. Coleman: You may inquire.

Cross-examination.

By Mr. Gaffney:

Q. How many trucks does Spector operate?

A. Tractors and trailer combination outfits, with the Wallace, will run about I would say, around 150; at various times.

Q. How many of those operate in the State of Connecticut?

A. Well, that is hard to say, Mr. Gaffney. They all [fol. 40] come in and go out of the State of Connecticut at some time during the year.

Q. I understood you to say you had three leased terminals, one in New York, one in Bridgeport and one in New Britain; is that correct?

A. That is, in this part of the country, yes.

Q. Where else have you leased terminals?

A. Chicago and St. Louis.

Q. Chicago and St. Louis?

A. Yes.

Q. Well, say—

Q. Your principal place of business is Chicago, is it not?

A. That is right. That is where our largest terminal is.

Q. That is your large terminal at Chicago?

A. Yes.

Q. St. Louis is your home office, is it not?

A. That is right, legal domicile.

Q. Legal domicile and you maintain your warehouse there?

A. We have a terminal there.

Q. Outside of Chicago, your principal place of business, and St. Louis, the home office and legal domicile, you have three other leased terminals, two in Connecticut and one in New York City?

A. Yes, we have other terminals.

Q. Yes, you explained it. But these are leased terminals?

A. That is right.

Q. Your terminal in New Britain is located on Park Street, is it not?

A. That is right.

Q. How big a building is it?

A. I would say it is a building possibly somewhat over a hundred feet long and possibly fifty feet in depth. It is two stories.

Q. Two stories and how many square feet of storage space?

A. You mean dock space? We do not do any storage business.

Q. Well, say—

A. The platform, I would say—

Q. The platform, or inside that might be utilized for temporary placing of goods in transit, say.

A. Yes. The platform is probably seventy-five feet long and forty feet deep, which would be, well, mathematically—23,000 square feet on the platform—I would say about that.

[fol. 41] Q. Yes, and is there two stories of that?

A. No. The upstairs are the offices and file space, etc., for filing of the local records that they keep.

Q. How about the Bridgeport terminal? How many square feet would you estimate are utilized there?

A. Well, the Bridgeport terminal we just moved, and frankly, while I handled the lease, I do not remember the address. We just moved in the last couple of weeks. I have not seen the terminal yet. I would say, judging from the size of the terminal we just had, and the fact that this is a little bit larger, it is about one-third the size of the New Britain terminal. In around Bridgeport we do not need a platform as large as New Britain because the Bridgeport freight is more in large shipments and truckloads, doesn't hit the dock to the extent that the New Britain freight does.

Q. How about your leases, how long a term are those leases both for New Britain and Bridgeport?

A. The Bridgeport lease is really not a lease. It is a month to month agreement. I think it has a provision in there that either we or the landlord can, on notice of sixty or ninety days—I don't remember—either we can move out or they can require us to move out. We had a lease at Bridgeport at the place from which we just moved, and when it expired they would not renew it because of present war conditions.

Our New Britain lease was renewed, I believe about a year ago, and I think it is for three years or possibly it is for five. I do not remember exactly.

Q. What is the annual rental?

A. I think our rental at New Britain is either \$300 or \$350 a month. I would not be too sure of that. I could check it from our records.

Q. Well, if it is different will you let us know, then after you have had an opportunity to check your records?

A. Yes. It is something like that.

Q. What was your rental in Bridgeport at the previous terminal?

A. Well, we have paid \$50 a month at one time when [fol. 42] it was smaller, when we were on Kiefer Street. I think we paid a hundred a month in this place from which we just moved. We paid a hundred a month a while, then 200 and then 300 a month. Today our rental at Bridgeport is 250 a month in addition to \$75 for the use of a lot and a right of way next to the terminal. The rents have fluctuated and gone up.

Q. That is an additional cost, \$75?

A. Plus the 250.

Q. Yes.

A. \$50 I think for the lot, and \$25 for that right of way, as they describe it.

Q. How many years did you say you have been operating in Bridgeport?

A. I would say that originally an actual operation started in Bridgeport in the terminal of another carrier, here, in the early part of '35. We had been transporting freight, however, in and out of Bridgeport almost as soon as the New Britain operation started, but that freight was brought up by a local transfer carrier from New Haven, Bridgeport, Naugatuck Valley and those places into our New Britain terminal, and there consolidated with other freight and shipped West.

Q. Now it appears from your list of employees on the exhibit in the New Britain office that you have a pretty complete unit there, isn't that so, in New Britain for the purpose of carrying on the business of the Spector Transportation Company?

A. Well, I hope we have a complete unit, Mr. Gaffney. I do not know what you mean by a complete unit. Of course, it is my job to see that all terminals are administered so that they do have adequate personnel. I hope I have done that job.

Mr. Coleman: It is Exhibit 9, your Honor.

Mr. Gaffney: That is right. I have it right here.

By Mr. Gaffney:

Q. You have a manager in charge of the eastern division located in New Britain, Mr. Spector?

A. Mr. David Spector.

Q. What are his duties?

A. His duties are supervisional; in so far as the New Britain terminal is concerned and its functions, he super-
[fol. 43] vises the management, and when we say management, that has reference to operations and traffic and the administration, sales, etc.

Q. Is he a sales solicitor?

A. No. He does not do any soliciting at all.

Q. Who does the sales soliciting in New Britain?

A. Well, we have Mr. Art Heelzer. I don't know—it is a very indefinite term in the trucking business—whether you can say a man does sales soliciting. He stands, perhaps, in the same relative position that a salesman would stand in a commodity business, if he had a specific commodity to sell. But his technique, like all of the salesmen, must be, since he is dealing only in creating the desire in some one, not to buy anything from us but to utilize the service that we perform, his technique is just to create that desire by things that he does and says.

Q. Will you explain exactly how a terminal operates? In other words, does your salesman go out or your solicitor go out and solicit orders from the factories in the State of Connecticut when they want to transport some goods west?

A. No, sir, a solicitor does not. That is, for instance, take one shipment, let us say, from Fafnir Bearing Company, let us say, of 9,000 pounds, originating in Connecticut. No one goes out to Fafnir Bearing and takes an order for the shipment of 9,000 pounds. We are just like—in that respect, we are a common carrier and stand in the same shoes, in that respect, as a railroad. Fafnir Bearing knows either because someone has told them or perhaps one of our people, our terminal manager, one of our drivers, one of our so-called representatives, solicitors or salesmen, whatever you would call them, that Spector Motors serves certain points. Fafnir Bearing may want

to send that shipment to Chicago or some point in Iowa or Bremerton, Washington. And the traffic manager and shipping clerk—F just happened to pick that name—may not know whether or not Spector Motor serves that point. [fol. 44] They will do one of a number of things. They may pick up the phone and call Spector Motor terminal and say, "Do you serve Ottumwa and how shall I route it?" Well, tell them we only go to Chicago, Illinois.

They will ask, "How shall I route it?"

And whoever answers that phone, maybe a pick-up clerk or our rate man or anyone there, might tell them to route it to Spector Motors to Chicago, and Reliable Transit from Chicago to Ottumwa.

They then make out a so-called shipping order, a uniform shipping order or bill of lading and ask us to make the pick-up. The truck is sent over there and the freight is picked up. It is sometimes left on the trailer and other freights put on the *that* trailer and it goes off to the West.

Q. You are not passing up any business, are you?

A. Passing up any business? No, we are not permitted under the law to pass up business.

Q. You would like more business if you can get it?

A. We would like to have as much business as possible.

Q. And the solicitor, so called, one of his jobs is to try and increase the business, is it not?

A. That is true.

Q. All right. So he brings it to the attention of the Royal Typewriter and Pratt & Whitney and Aircraft and other factories, that you are in business to serve.

A. Yes.

Q. He may be in the home office when he gets a call?

A. The home office?

Q. The New Britain branch, I might say.

A. No. He does not get calls. That is not his job. His job is just to go out and just keep circulating around, either by making direct calls on the traffic managers, the shipping clerks, leaving them lists of points, answering their transportation problems, or meeting them at traffic clubs, or taking them out to lunch, or making social or personal contacts and talking up Spector Motor Service as much as he can.

[fol. 45] Q. All right. Now in a so-called order, when a company in Connecticut wants to ship West and they con-

tact whoever is the representative in New Britain, then what happens physically? Is a truck sent up to pick up their order and deliver to New Britain or what?

A. They do not contact a representative. They make what is called a pick-up call. With many of our shippers here in this area they have what we call regular pick-ups. Some of them will ship daily and a truck calls there daily. Some of them will ship once a week. Every Wednesday they have a shipment of approximately the same amount. If it is a small amount the little pick-up truck calls. If it is a large shipment, some of them ship 10 or 12 or 16,000 pounds at a time, which is at least a full truckload, and the road trailer will make the call.

Now the traffic department of the terminal, that is the dispatcher and the pick-up clerk, etc., they have the list of these daily calls. Most of the calls, as a matter of fact in Connecticut, Mr. Gaffney, are regular recurring daily calls.

Q. The point I am trying to get at is the picture of your operation. They call or they have regular calls, and these truckers come and they bring the goods down to the New Britain terminals.

A. What do you mean these truckers?

Q. Well, do you pick them up out of your own trucks?

A. Some of them are our own trucks. These large shipments, the road driver goes out and makes the pick-up in many cases. Then we have local cartage pick-up and delivery service as a part of our line-haul service through local cartage men whom we pay so much a hundredweight for the purpose of handling this local cartage service.

Q. Very well. Then either through the local cartage men or through your own trucks, the goods are brought to that New Britain terminal, are they not?

A. That is true, yes.

Q. When you have got sufficient goods to fill up a truck full, then a truck is dispatched. Isn't that about—

A. No, sir.

Q. All right. Then you sort it out—

[fol. 46] A. It is placed on the platform and sorted according to the destination points, and sometimes according to the commodity, according to the size of the shipment. If it is a large shipment and it can be made at destination direct from the trailer without lifting the destination dock, then miscellaneous shipments are placed in front of the

trailer, the large shipment at the rear end of the trailer; so that the road driver can make the delivery. The same is true of the pick-up here. In other words, they may have going to Chicago, let us say, 5,000 pounds of miscellaneous freight on a Tuesday. And on Tuesday they know that they have a regular pick-up from a particular shipper here, Pratt & Whitney, let us say, that usually runs between 15 and 17,000 pounds. They will load the nose of the trailer with the 5,000 and send that road driver over to Pratt & Whitney to put the 15 or 17,000 pounds on the back and it goes right from there off to—

Q. I see. Then the pick-up is made either through your own truck at the factory or through these trucks—

A. Or through a truck that we control through arrangement with them. We must control them under the ICC regulations.

Q. Your own truck may possibly, if it is a sufficiently large load, go right out on its route. Otherwise the goods are carried back to the New Britain terminal and are sorted?

A. That is right, on the platform.

Q. According to size and perishability, and they are shipped out?

A. Loadability.

Q. How long are they kept at the New Britain terminal? Not longer than thirty-six hours, I take it.

A. They are not even kept that long. Right now under the new ODT order, general order no 3, we will not be permitted to keep any shipment in our terminal over thirty-six hours. It would be a violation. A pick-up is made during the day. It is sorted out on the platform, even those that are made in the evening, and that truck goes out sometime between the time it is picked up, sorted out, and one or two o'clock in the morning. It is on the road. It does [fol. 47] not stay. It does not rest here at all, does not come to rest at all for any purpose other than putting into the trailer.

Q. The goods that are picked up in the lower part of the state down around Fairfield County, are first brought to the Bridgeport terminal, are they not?

A. That is right.

Q. And brought from the Bridgeport terminal to the New Britain terminal?

A. No.

Q. For sorting?

A. Oh, no. Bridgeport operates—

Q. Independently now? I see.

A. Once in a while you might have, if they are short of equipment in Bridgeport and they have some space in the trailers in New Britain, and the reverse sometimes is true—rather than hold freight over a day, they will move it up to New Britain or down to Bridgeport from New Britain to dispatch it expeditiously. That is very rare and that is the exception.

Q. Your Company was formed in 1933?

A. It was incorporated then.

Q. Incorporated. And it has prospered since that time, has it not?

A. Yes, sir, it has.

Q. Can you tell us year by year the gross operating income of the Company?

A. The operating income or the gross receipts?

Q. Well, both if you can do it.

A. Well, of course that would call for a better memory than mine. In 1932 they were working on a little different basis with these hired operators than later. I would say that the net operating income at that time was possibly—or the gross—

Q. Gross I am asking for.

A. Well, it depends upon an interpretation of the words. The gross that was put on the books at that time I would say was possibly 5 to \$6,000 a month, but it was put on the books on an entirely different basis than today. It was put on, net of everything that was paid out, so that would be net operating income. From that—

[fol. 48] Q. I am not too interested in '33. Let us get up to these tax years of '36 on.

A. In '36 I would have to look at the record.

Mr. Coleman: We have them all here. The accountant—

The Witness: (Interrupting.) The general ledger gives the revenue. In 1938 I believe the revenue—I think the revenue was something like 500 and some odd thousand dollars.

By Mr. Gaffney:

Q. All right. Stop right there just a minute.

A. I think it was. I don't know.

Q. What percentage of that gross revenue did Connecticut business bear?

A. That you would have to ask Mr. Arnold. I do not remember those figures because I do not concern myself with them until I become interested in a particular problem involving them, and I do not really remember.

Q. Do you know whether it was fifty per cent?

A. Another thing, it is hard for me to answer that because I do not know what you mean by Connecticut business. We do not have any such thing as really Connecticut business. Business originating out of—

Q. Business originating in Connecticut.

A. I think possibly in '36—

Q. '38 we are talking about.

A. '38. I would say at that time, possibly '38, business originating out of Connecticut in '38 to the gross receipts might have been around twenty-five per cent. I wouldn't know, Mr. Gaffney. We have got the records here and we can tell you.

Q. As a matter of fact, it was better than fifty per cent, was it not?

A. Might have been. I do not really remember. I cannot remember those figures.

Q. All right. Well, forget that line of questioning for the moment.

You have seventeen employees located at the New Britain terminal office. Are most of those employees local people?

A. Oh, they all live in Connecticut, New Britain, Newington and around Hartford. Mr. David Spector lives in Hartford.

[fol. 49] Q. The payroll amounts to how much per week?

A. New Britain terminal payroll with dock, oh, I guess somewhere around \$1200 a week, possibly a little more, possibly a little less, I would say.

Q. How are they paid?

A. They are paid by a draft which they draw on the treasurer of the Company at Chicago. We have a draft system. All terminals draw a draft on the treasurer of the Company and they pay—all terminal payroll is paid in that way.

Q. Is the same true with the Bridgeport terminal?

A. Yes, they draw a draft on the treasurer of the company.

Q. You said you pay no local taxes in the nature of property taxes at all.

A. Yes, I think we pay to the City of New Britain.

Q. City of New Britain, a personal property tax, is that it, on the desks and furniture?

A. I think so.

Q. How much of a personal tax is that?

A. I do not know. They tell us it is around forty, fifty or sixty dollars.

Q. Your accountant would be able to tell us about that?

A. Yes. There are some things about the Company that I do not know, Mr. Gaffney. I frankly confess that.

Q. Your bank accounts, you keep one in Bridgeport and one in Chicago, is that right?

A. We have a bank account in Chicago that is our primary bank account. That is where the funds of the Company are deposited for the purpose of handling the business of the Company. We have a bank account in St. Louis, too, but the bank account in St. Louis is in the same relationship as the one in Bridgeport. All they can do is deposit. In St. Louis no one has authority to draw any checks against that account for any purpose. We draw the checks at the home office for the purpose of transferring the funds into the Chicago account. I think we just recently opened a bank account in New York, also, to handle the cash collected by the drivers, and they have the authority to deposit that money in the New York bank account, draw a check [for \$50] for the amount of the days collections, and send that check in to the home office. A transfer account only.

Q. Your rent is paid for the New Britain terminal by a check drawn on Chicago?

A. No. The rent is paid by a check drawn at the home office and forwarded here direct to the landlord here or to the New Britain office, and sent to him.

Q. And your payroll is paid by home office check, is that right?

A. Payroll is paid by draft which they draw themselves.

Q. Who draws?

A. The office, the New Britain office draws the draft. They have a regular payroll set-up. We have a definite schedule of pay, and they know what their salary is, and the overtime work. We get payroll reports.

Q. That operation of drawing a draft to pay the local employees is performed in New Britain?

A. They draw a draft.

Q. On a foreign bank?

A. It is not drawn on a bank. A draft is drawn by someone authorized in New Britain to sign drafts. There are three people in New Britain who may sign drafts. They draw a draft payable—it is a voucher draft payable to the order of the employee for that employee's salary for the previous week. Payrolls are made, I think on Tuesday, that is, payroll is paid on Tuesday for the previous week ending Saturday. On the voucher at the bottom it will state the amount of payroll, the social security, and the net amount of that draft. That draft is drawn on the treasurer of the Company who happens to be me.

And it clears through our bank in Chicago, the Halsted Exchange National Bank. Those drafts come in from all over the territory we operate, and we get a notification at approximately 12:30 each day telling us we have so much in drafts, and we draw a check to the order of the bank for the amount of the drafts that are in that day, and we send that over with our messenger and pick up those drafts. They do not clear against our bank account. They are drawn directly on the treasurer.

[fol. 51] Q. That operation is performed in New Britain?

A. Well, a part of it. The drawing of the draft, the making out of the draft, and the issuance of it is made there.

Q. And the transfer of the draft to the employee?

A. That is right.

Q. What about the incidentals? How do you pay for incidentals that may arise in connection with the carrying on of the terminal business at New Britain?

A. Well, supplies, of course no terminals are permitted to buy supplies. We have a centralized supplies department, and they get their supplies and fixtures and equipment through requisitioning the supplies department at the home office. They have no authority to buy supplies of any kind.

There are some. Utility bills are paid from the home office. Once in awhile they will go off of that like all branch offices will, forget instructions, and they will get the bill in. But I think our set-up has been for a number of years that the utilities bills are mailed in directly to the home office and we pay them by check directly to the Southern New England Telephone Company, and so on, that way.

Q. Yes, but also for incidental expenses or broken windows or anything you can think of, what about that?

A. That they hire a man here, a carpenter or somebody like that, and they would issue a draft, or pay him out of petty cash, if it is a small amount.

Q. That would apply to other incidentals, like carpentry or any kind of manual labor that has to be done, like plumbing?

A. Well, plumbing, we have the janitor who is sort of a handy man here at New Britain. There are items that they pay by these drafts or out of petty cash here. Most of the large proportion of the terminal operating costs, however, with the exception of terminal payroll, are paid from the home office. We have a theory of centralized control that we have had since '37.

Q. Where are the accounts receivable for Connecticut business collected?

A. Well, some of them might be collected in Chicago or [fol. 52] St. Louis, or even points beyond, and some of them might be collected here. If a shipment moves prepaid—

Q. Just a minute. "Here", you mean New Britain?

A. In New Britain, Connecticut. If a shipment moves prepaid out of Connecticut, where according to the billing, the shipper is to pay the freight charges, then the New Britain office, which handles the accounts receivable for all of the New England territory, those that materialize as a result of shipments moving in and out of Bridgeport, those that materialize or come into existence as a result of shipments moving in and out of New Britain and its territory, also Springfield, Massachusetts, Worcester, Providence, Rhode Island, Boston, Massachusetts, and Haverhill, Massachusetts—the New Britain administration office and pick-up department handles the accounts receivable of all of those offices. They all come in here.

Q. Well, let us confine ourselves to Connecticut accounts receivable for the moment. What percentage of Connecticut accounts receivable are handled by the New Britain office, and what percentage by the Chicago office?

A. Well, I started to explain. If a shipment moves out of Connecticut prepaid, that account receivable will be taken into the so-called New Britain accounts. We label it that for the purpose of identification; in other words, into the accounts receivable ledger which is kept here on that part of the business. If it moves "collect", however, in other

words, where according to the shipping order the consignee is to pay the freight charges at destination, then either the Chicago office or the St. Louis office will collect those freight charges and will therefore take the account into their accounts receivable ledger, depending upon where the destination is.

Q. Tell us how many truckloads move collect out of Connecticut compared to the truckloads that are prepaid.

A. Well, that is hard to say. You may get one month where the prepaid will be more than the collects, and another month where the collects will be more than the prepaid. There is so much moving prepaid out of Chicago into [fol. 53] Connecticut area that it over balances the other.

I would say this, I would say that by and large—

Q. Pardon me, May I interrupt just a minute? You are talking about truckloads moving out of Chicago into the Connecticut area, are you not? That is the statement you made.

A. Or Massachusetts area, which are also handled here.

Q. We were talking about truckloads moving out of the Connecticut area.

A. I would say it is about 50-50, when you average it up during the year. We have not taken occasion to really compute it, because it has not been a problem of any consequence to us, because the real problem is to set up a mechanism whereby the accounts receivable will be handled expeditiously, regardless of where they are to be collected within the credit regulations of the ICC. We must collect within seven days of the presentation of the freight bill.

Q. Are any orders or in a legal sense, contracts, made with Connecticut factories subject to acceptance by Mr. Spector, the general manager in New Britain?

A. What kind of contracts?

Q. Orders for shipment.

A. We do not have that. We are common carriers. We do not have a contract. Our contract is established by operation of law. When a shipper—

Q. I appreciate that. But in some instances, isn't it up to the judgment of the local traffic manager whether or not he has the room to receive the shipment or otherwise?

A. No, we cannot—

Q. Doesn't he exercise any individual judgment at all in the operation of the concern in shippings?

A. Well, of course he does exercise some discretion and some independent judgment.

Q. What is the nature of it?

A. Well, in the matter of what freight will he put on what truck, for instance.

Q. And what else?

A. Whose pick-up will he make first? Will he send trailer [fol. 54] no. 1520 to Fafnir Bearing, or will he send trailer no. 1506? Is that a 15—

Q. Suppose it came to a question of freighting very perishable goods.

A. I may say this, Mr. Gaffney. He has no administrative discretion whatsoever. He must, on all matters that are administrative in their nature—he operates according to standing home office instructions or according to instructions issued either by Mr. Spector, myself, or one of our division heads—the administrations of an accounting officer who sits at a table, Mr. Arnold, or the general traffic manager, or the operations division head, or the sales manager.

Q. Now you operate—the Spector Company, when I say you—you operate about five trucks in Connecticut for the purpose of picking up loads at these various factories, do you not, and delivering them to the New Britain terminal?

A. For New Britain area I would say that is five.

Q. Those trucks—

A. Pardon me. We have freight brought in from our shippers and delivered to our consignees in the New Britain area by other means, too.

Q. Yes. I am just confining myself to these five trucks.

A. We have freight at New Britain, is also picked up and delivered through others, other than these five trucks, Brown and Porto and others. We have several others.

Q. These five trucks that I speak of, they are under the Spector registry, are they not?

A. Yes. I understand those are registered in the name of Spector Motor Service. I did not handle that. Mr. Bacon, my assistant handled that with Mr. Nair, so I am not familiar.

Q. Are those five trucks used in the state of Connecticut, practically exclusively in the state of Connecticut, in going around and picking up loads at the factories and bringing them to the terminals at New Britain and Bridgeport?

A. That is true. If you let me qualify that, that is true to the extent that it is a part of our through-line-haul operation. That pick-up and that delivery that is made by that truck, is only for the purpose of starting or finishing a line—[fol. 55] haul movement of that freight from a point outside of Connecticut into a point into Connecticut, or from a point into Connecticut to a point outside of Connecticut.

Q. Whatever the purpose they are used for, the fact remains, does it not, that those trucks operate in the state of Connecticut?

A. Those pick-up and delivery trucks that you mention never get out of the state of Connecticut. That is true.

Q. You rented those trucks from a man down in Meriden. Haven't you?

A. I think he is. Those that you refer to, I think a man named—I think so.

Q. Essener?

A. Espener. Mr. Arnold comes in contact with those deals more than I do.

Q. What is the arrangement on that hiring?

A. I do not know off-hand, except that we have an arrangement whereby he picks up and he handles our freight at so much per hundred weight, depending upon the size of the shipment. There are regular breakdowns. In other words, from up to 5,000 pounds there is a rate per hundred weight. For a certain amount from five to ten it is another amount. Up to fifteen it is another amount. If he uses a tractor for a pick-up and delivery, and our trailer, there is another amount. And off-hand I do not remember the rates. I have records of them in my office. We always have that, when I am interested in that particular information, as I happen to be making a survey of cartage cost right now in the New England territory, and I have to go to my black books and open them up and look at that particular information. I can't remember that.

Q. Specter Company has terminals, leased terminals, in four states: New York, Connecticut, Missouri and Illinois. Isn't that so?

A. Yes. We had a lease on a terminal in Boston until March, when we closed it and went into one—converted the Boston operation into a so-called agency terminal to meet that—

Q. Have you ever paid any state taxes in any one of those states?

A. State taxes.

[fol. 56] Q. State corporation taxes, corporation income taxes, franchise taxes, use taxes, any taxes in the corporate business.

A. We pay federal capital stock tax.

Q. Just a minute, please. No federal taxes, I am just talking about state taxes.

A. We pay in the state of Missouri and in Illinois, various state taxes.

Q. All right.

A. And we also pay certain taxes, liquor permits, and other things, liquor taxes in the states of New York and Maryland and New Jersey.

Q. Just a minute.

A. And various forms of taxes.

Q. Those liquor taxes are license taxes, are they not, for carrying liquor in those states?

A. I suppose you would call them a license tax, I suppose. We do pay other taxes.

Q. What taxes do you pay in Illinois?

A. Off-hand, I do not know. I would say we pay whatever taxes are legally required of us.

Q. Nominal taxes you pay in Illinois?

A. It depends on what you call nominal. We do pay taxes to the state of Illinois, in one form or another.

Q. It is a minimum tax rate you pay them there?

A. Not being a tax expert, I wouldn't know, Mr. Gaffney.

Q. What other states do you pay taxes to, state taxes?

A. State of Missouri.

Q. What is the nature of that tax?

A. Well, we pay, I believe, state income tax to Missouri. We pay personal property taxes.

Q. You pay to the—

A. Through Wallace we pay quite a high personal property tax on this equipment, through the Wallace.

Q. Never mind Wallace. That is a separate entity, it is not, legal entity?

A. It is in one sense. In another sense it is not. It is a separate entity, separate legal corporate entity, that is true.

Q. And the tax is paid by Wallace and not by the Spector?
[fol. 57] A. They do not come out of the Spector exchequer or coffers, as such, that is true.

Q. You are not claiming the Spector Transport Company is paying taxes when Wallace pays them?

A. I am merely mentioning, I am not claiming anything. That is for you as a lawyer. I merely mention it as a fact that Wallace does pay this high personal property tax in Illinois, and we regard it from our administrative and operational point of view that in effect it is Spector Motor paying it. Of course, whether that is proper legal presumption or not, I would not undertake to say at this time. We pay taxes to Missouri; however; we pay taxes to Illinois.

Q. Now you have got two states there. Missouri and Illinois.

A. We pay taxes to Indiana, I believe.

Q. What is the nature of that tax?

A. Off-hand I do not know. It is some kind of a tax.

Q. Personal property tax?

A. Something in connection—yes, personal property, I think or something in connection with compensation, I believe. I cannot remember. I think we do. We pay some state tax which is not a license tax in New York.

Q. I see.

A. We pay many license taxes.

Q. As a common carrier engaged, as you say, exclusively in interstate commerce, haven't you rather successfully avoided paying taxes in any of these states?

A. We have not avoided doing anything, Mr. Gaffney. We have paid whatever we felt was legal and proper; not prohibitive or exorbitant, and whatever was necessary to pay. Where the law has required that we pay it and there has been no question about our liability to pay, we have paid without question in all cases.

This happens to be one of the cases in which we do not feel we are either legally or morally obligated to pay under this particular tax act, and therefore, we have sought the benefit of a decision of a court.

[fol. 58] Q. I think that remains to be seen.

A. To determine whether we are right in the conclusion we reached.

Mr. Gaffney: That is all.

(At 11:45 A. M. a short recess was taken.)

By Mr. Gaffney:

Q. On the duty of the solicitor, so called, in the local terminal in New Britain, in the event that, for example,

Fafnir Bearing Company suddenly dropped you as a carrier, wouldn't he then contact Fafnir Bearing to see what the reason was, etc.?

A. Yes, he would.

Q. He would?

A. He would, and probably Fafnir Bearing—probably both Mr. David Spector and Mr. George Douglass and possibly Mr. Ben Spector would also come up here to find out why, being that important an account.

Q. That is all.

A. I would like to clarify that matter of that state tax. You asked me about the state tax. We do pay in all of the states in which we have terminals and payrolls, of course, the state unemployment tax.

Q. Yes.

A. The state unemployment throughout the system runs about \$2500 a month. We pay about a thousand dollars per year in Connecticut.

Q. Not a corporation tax?

A. It is paid by the—we pay a franchise tax in Connecticut, too. We pay a franchise tax in the state of Illinois, franchise tax to the state of Missouri. Based on capital stock it is.

Q. The franchise tax you pay in Connecticut is for the privilege of a foreign corporation doing business in this state, is that right?

A. I am so informed. I think that is the basis. I wouldn't be sure.

Q. What was the amount of that tax?

A. The amount? In connection with that so-called qualification, I think that is \$50 a year.

Q. \$50 a year?

A. Of course the state unemployment in Connecticut based on payroll, is about a thousand dollars a year, about [fol. 59] a thousand dollars a year, but for the whole system it runs about \$2500 a month.

Q. That is a universal tax throughout all the states, an unemployment compensation tax?

A. Throughout all the states in which you have employees.

Mr. Gaffney: That is all.

Redirect examination.

By Mr. Coleman:

Q. You purchase gasoline in Connecticut, also, don't you?

A. That is right. Gasoline is purchased in the same way. It is paid directly by Spector. That actually is paid by Wallace. Spector. Except the gasoline that is used, purchased for the salesmen in their cars.

Incidentally, Mr. Gaffney, our New Britain man also goes into Massachusetts. Mr. Hoelzer also covers some part of Massachusetts.

Recross examination.

By Mr. Gaffney:

Q. This so-called franchise tax that you pay in Connecticut is a minimum basis rate, is it not?

A. That I wouldn't know. Mr. Arnold would know.

Q. It is the minimum tax for the privilege of doing business — the state of Connecticut for a foreign corporation?

A. I couldn't answer that. I know we pay the tax. What the basis is—

Q. Are you still paying that?

A. So far as I know.

Q. You are paying a minimum rate for the privilege of doing business in the state of Connecticut and you pay a tax on that every year?

A. We pay a tax each year in connection with a fee, tax assessed on the qualification, on the license to do business, which privilege we have never as yet exercised. We do not do business within the state of Connecticut.

Q. You claim you have never exercised it. It is a contradiction then in paying the tax, is it not?

A. That I wouldn't say. That is a legal question that I would not undertake to give an opinion on.

Mr. Gaffney: That is all.

[fol. 60] By Coleman:

Q. That qualification to do business in Connecticut, as you testified yesterday, was started in connection with that lease in New Britain?

A. In New Britain.

Q. The landlord insisted?

A. That was the only reason it was gone into, and the only reason it was maintained, yes.

Q. You said that subjects you to the jurisdiction of Connecticut courts for suits?

A. For the purpose of service, etc.

By Mr. Gaffney:

Q. Pardon me. I overlooked this question. You said yesterday you had three trucks you were buying on conditional bill of sale?

A. Yes, so I am informed.

Q. Where is that bill of sale recorded?

A. I would think that it is recorded here in Connecticut.

Q. What town in Connecticut?

A. Probably New Britain. I do not know the details. As I said before, Mr. Bacon and Mr. Nair handled the details of that particular transaction and I am not familiar, exactly, with them.

Those are the trucks, of course, that are used in pick-up and delivery service that we talked about before.

Is that all?

Mr. Coleman: That is all, Mr. Fisher.

(Witness excused.)

OLIVER ARNOLD, called as a witness on behalf of the plaintiff, being first duly sworn by Clerk Pickett, testified as follows:

By Clerk Pickett:

Q. Your full name?

A. Oliver Arnold.

Q. Where do you live?

A. 7456 South Shore Drive, Chicago, Illinois.

Direct examination.

By Mr. Coleman:

Q. What is your business or occupation, Mr. Arnold?

A. I am employed by Spector Motor Service in an administrative and accounting capacity.

[fol. 61] Q. What experience in the accounting line have you had? First of all, how long have you been employed by the Spector Motor Service?

A. I have been employed by Spector almost four years.

Q. Prior to that time were you engaged in practice as an accountant?

A. Yes. I was employed by the firm of J. W. Boyle and Company of East St. Louis in the capacity of a senior accountant doing public accounting work.

Q. What business is J. W. Boyle in?

A. They are certified public accountants.

Q. Prior to your connection with the Boyle Company, what were you doing?

A. Well, I had worked various times for the American Red Cross as a disaster and field accountant on different emergency jobs.

Q. Prior to that, were you in Washington?

A. I worked for the Federal Surplus Relief Corporation, in Washington, D. C., as an accountant.

Q. At my request have you prepared an exhibit, Mr. Arnold?

A. Yes.

Q. Showing the effect of a tax similar to that employed in Connecticut extended over all the states through which the Spector system operates?

A. Yes.

Mr. Gaffney: I object to this exhibit, your Honor. The same situation does not prevail in all the states where the Spector corporation operates. It is obvious from the answers that were submitted by the previous witness, that in Connecticut, Missouri, Illinois and New York are the four places where they have leased terminals and where they employ local help and carry on to a certain degree a local business. In other states they are merely in transit, going through, as far as we are able to determine.

I do not think this exhibit in any sense has a bearing on this case other than to give a distorted picture of what the burden on interstate commerce would be in the event that in each state through which a truck operated by Spector [fol. 62] passed, they would carry such a burden under such a picture that it would clearly show there was a burden on interstate commerce, which is not a clear picture as we claim it here.

We are claiming solely, that there is a Connecticut operation here, and consequently an exhibit such as this would not be a fair exhibit since it covers lots of states where the

same situation as prevails in Connecticut does not prevail.

Mr. Coleman: My claim, your Honor, is that the reason I asked this exhibit be prepared, is that the present Chief Justice in the Gwin case, recently decided, which will be cited to your Honor, said that one of the considerations which the Court should give to a tax made by a state is the incidence of such a tax operating over all the system. And I think that such an exhibit should be admitted. The weight, of course, to be given to it is a matter in your Honor's discretion, but it does seem to me that it is one of the factors at least, that you ought to consider in determining whether this tax is constitutional or not.

Mr. Gaffney: It has appeared from a previous witness that there has not been a tax paid in any state of the nature of the tax levied by Connecticut. They have not paid the Connecticut tax. It would not present the true picture under this state.

Mr. Coleman: The other states were better.

The Court: The objection is overruled.

(*Plaintiff's Exhibit 15*: Statement entitled "Comparison", 1940, 1939 and seven months 1938.)

Mr. Coleman: May I have one of those?

(Witness handed paper to Mr. Coleman.)

By Mr. Coleman:

Q. Now would you explain what this exhibit reflects?

A. This exhibit that I compiled is a comparison of our gross income, or as it has been termed a number of times, gross sales or gross revenue or total charges for freight handled, our net income as computed for our federal income [fol. 63] tax return, and then an item that is marked "tax" which is computed on the basis which the State of Connecticut uses.

This is for the year 1940, 1939 and for seven months of 1938. That seven months period occurs because we changed from a fiscal to a calendar year at that time in order to comply to some ICC regulations regarding reports and system of accounts that they installed in 1938.

Q. First of all, is this tax computed on the allocation method set up in the Connecticut statute?

A. Yes.

Q. And the net income is based on your federal income tax report?

A. Yes.

Q. Are they here in the courtroom so that they are available for inspection by Mr. Gaffney, if he desires to see them?

A. Yes.

Q. Have you also at my request brought here your annual reports to the Interstate Commission as to your gross and net revenues?

A. Yes.

Q. Are those reports here, available here in the courtroom, available to Mr. Gaffney if he desires them?

A. Yes.

Q. What is the relationship of the tax, Mr. Arnold, to gross revenue, and what is its relation to net revenue as shown by this exhibit?

A. Well, as shown by this exhibit, the tax as computed by the State of Connecticut, follows the gross revenue and has no connection with net income of the Company. Very clearly brought out—in 1938 the sever months, with a gross revenue of 432 thousand dollars, our net income to the Company was 111 dollars, but using Connecticut's computation of tax there would have been a five thousand dollar tax. In 1939, with a revenue of 1,200,000, the net income which we reported for federal income tax returns was \$46,000, and the tax as computed by Connecticut would be \$15,442.91. We find there, as compared to 1938 and '39, you had three times the amount of business. Our net income for federal purposes was \$46,000 against \$100. But our Connecticut [fol. 64] tax, using Connecticut formula, trebled the same as the gross revenue did.

In 1940 you will find the same increase in the gross revenue and tax as computed by the State of Connecticut, but our net income dropped that year to \$10,000. If the tax as computed by Connecticut were collected all over, it would have shown an operating deficit or loss for that year of \$10,000.

Q. I note, Mr. Arnold, that as between 1939 and 1940 there was a drop in your net income as reported to the federal government.

A. That is right.

Q. And yet, the tax, if it had been levied by all the states, would have increased rather than decreased?

A. It would have increased \$5,000.

Q. What can you say about the ratio of the increase of the tax as compared to the ratio of the increase of the gross revenue?

A. Well, the tax computed by Connecticut seems to bear the same ratio of increase as the gross revenue of the Company. It follows it right all the way through.

Q. Did you prepare, at my request, a profit and loss statement of Wallace Transport Company?

A. Yes.

Q. What item is that under your marking?

A. 8.

Q. Is that it?

A. That is it.

Mr. Gaffney: Objection is made, your Honor.

The Court: He has not offered it.

Mr. Coleman: I offer, at this time, your Honor, a balance sheet, statement of income and profit loss of the Wallace Transport Company from October 1, 1939, to September 30, 1940. And the purpose of this is to rebut the State's method of computing the tax. The State, in computing the tax, has allowed us not the entire amount that we pay to the Wallace Transport Company for the use of their trucks. Do you see? But only sixty per cent. The State apparently concedes that sixty per cent is a proper operating charge which should be deducted from our gross revenue. We are [fol. 65] putting in the profit and loss statement of Wallace Transport Company to show that that sixty per cent deduction is not a fair one.

Mr. Gaffney: Objection is made to the admission of this one, your Honor. Profit and loss of the Wallace is not a concern in this particular trial here. It was admitted, I believe, that the sixty per cent was the fractional allocation that we allowed to the Wallace Transport, and why we should burden this particular trial with a profit and loss statement of the Wallace Transport Company, I think is immaterial.

Mr. Coleman: It seems material to me that the problem is raised in this case because the State does say "We won't grant you all these sums of money. We won't concede it is rent." The State says, "We will only allow you sixty per cent. Sixty per cent is really only the operating costs."

We claim that this exhibit here will show that only 100% of the amount paid over to Wallace is really an operating cost of Spector and therefore should be a deduction.

The Court: It may be admitted.

(Plaintiff's Exhibit 16: Statement entitled "Wallace Transport Co. Statement of Income and Profit and Loss for the Period October 1, 1939, to September 30, 1940.")

By Mr. Coleman:

What does that exhibit in your hand reflect?

A. This exhibit is one that I made up from reports of the Wallace Transport Company, and which covers the revenue and operating expenses for the fiscal year.

Q. Are you engaged in accounting in connection with the Wallace Transport as well as the Spector?

A. I have complete supervision and charge of all accounting for the Wallace Transport Company.

Q. For that period what was the income of the Wallace Transport Company?

A. The Wallace Transport income was \$529,474.70.

Q. Where was all that money received from, from what source?

A. That money was all received from the Spector Motor Service.

Q. In exchange for what?

A. In exchange for the use of the trucks.

Q. Use of the trucks of the Wallace Transport Company?

A. That is right.

Q. During that period what were the total disbursements, expenses of the Wallace Transport Company?

A. Total expenses were \$533,019.52.

Q. Leaving a deficit of how much?

A. Of \$3,544.82.

Q. Those expenses and those items that you have given here, it is true they are contained in the exhibit, but could you for the record read what they are?

A. Motor fuel, \$141,962.72, motor oil \$6,920.62, repairs 105,015.49, tires and tubes \$61,632.23, painting and lettering \$1,027.25.

Mr. Gaffney: Pardon me. Before he goes on, might I make a further objection, your Honor, to this? This is on a fiscal year basis, and the Spector operates on a cal-

endar year basis. And it does not reflect a true condition between the two companies on that basis. Operating costs are larger during certain months. Taxes are paid during certain months. And consequently, this would reflect an entirely distorted picture.

The Court: Objection overruled.

By Mr. Coleman:

Q. Would you continue with the reading?

A. Inspection and servicing \$9,729.32, depreciation \$89,671.42, insurance \$26,033.12, road expenses, tolls, etc., \$10,987.45, telephone and telegraph \$2,727.84, stationery and office supplies \$1,969.34, license and taxes \$13,144.40, legal and accounting fees \$2,824.15, rent, light, heat, etc., \$3,014.78, salaries \$36,321.53, expenses of general office employees \$143.69, interest expense \$15,894.17, making total expense of \$533,019.52.

Q. That sheet is for the period of—

A. For the period from October 1, 1939, to September 30, 1940.

[fol. 67] Q. From your knowledge of the affairs of the Company, is there any substantial difference of what is chosen, either a calendar or a fiscal year, so long as twelve months is included?

A. It makes no difference, so long as twelve consecutive calendar months are included.

Q. Assuming that Spector Motor Service Company owned the trucks instead of Wallace Transport, Mr. Arnold, are there any items on that exhibit before you which could be eliminated as an operating expense?

A. No, there is not.

Q. In other words, if Spector owned these trucks, they would have to pay the same amount for upkeep, etc.?

A. They would appear on the books of Spector Motor Service as expenses.

Mr. Coleman: You may inquire.

Cross examination.

By Mr. Gaffney:

Q. It is true, is it not, that the Spector Motor Service Company carries their accounts on a calendar year basis?

A. It was changed to calendar year basis in 1938.

Q. All right, then, it does not correspond in any respect to this computation of the Wallace Transport Company which is carried on a fiscal year basis, does it?

A. I would say it is comparable because it is for twelve consecutive months which cover all four seasons of the year.

Q. Well, your exhibit, Wallace Transport Company, runs from October 1, '39 to September 30, 1940, does it not?

A. That is right.

Q. In certain seasons of the year are there not increased taxes to be paid?

A. When you consider a twelve month period you have your taxes spread over the entire year, and it would make no difference whether the taxes were paid in January or July as long as it was within the twelve month period.

Q. When are most of the taxes paid, what month?

A. You will find your heavy taxes are in January and February.

Q. January and February?

A. Yes.

[fol. 68] Q. What year are you comparing this particular exhibit, due to the Spector Transport?

A. This shows the typical operation of a fleet of equipment. I do not say we are comparing it with any particular year of the Spector operation.

Q. You are the accountant who handles the tax payments of the Spector Company, are you not?

A. Yes.

Q. How long have you been working for Spector?

A. Not quite four years.

Q. What is the gross revenue of Spector during the last four years?

A. I do not have the figures available in my mind. I read off revenue for 1940 and 1939 which is on that exhibit which I had first. In prior years, the revenue was lower.

Q. Well, what does it approximate? Can you tell us that?

A. In 1940, the gross, that is, before any expenses at all, was 1,700,000 in round figures.

Q. And '39?

A. In 1939 it was 1,200,000.

Q. And '38?

A. In '38 we were not on the calendar year, and that year is broken up. For seven months, ending '38, the gross there was a little over 400,000.

Q. During those three periods what was the ratio of gross income originating in Connecticut?

A. I would have to check some of my work papers to give you those figures.

Q. Haven't you got them ready?

A. I have not, in my mind. I cannot remember all those figures.

Q. Have you got them written down on your work sheets?

A. Yes. I have them on my work sheets.

Q. Would you get them, please?

(Witness produced the papers.)

A. In 1940 it was thirty-four per cent and a fraction.

Q. In other words, would you explain that thirty-four per cent? Does it mean thirty-four per cent of the entire gross revenue of the Spector Motor Transport Company originated in Connecticut in the calendar year 1940?

A. I would say that the shipments originated in Connecticut.

Q. Thirty-four per cent of all?

A. Thirty-four per cent.

[fol. 69] Q. That considered thirty-four per cent of the gross revenue received by the Spector Company?

A. That is right.

Q. Now '39.

A. In 1939 it was forty-two per cent.

Q. And the same situation prevailed as I have just explained, that forty-two per cent of all the gross revenue of the Spector Transport Company originated in Connecticut in 1939?

A. That is right.

Q. Now for the seven months of 1938.

A. That figure I do not have available right at the moment.

Q. Do you know whether it ran over fifty per cent, or not?

A. No, it did not.

Q. Did you help Mr. DeCicco when he examined the books?

A. When Mr. DeCicco examined the books, I made the books available to him, and I gave him space where he could work. I did not work with him at any time when he was taking figures off the book.

Q. So that, for example in 1939, despite the fact that only 4.33 per cent of all the mileage travelled by the Spector Transport Company trucks was in Connecticut, neverthe-

less, there originated in Connecticut forty-two per cent of the entire gross revenue of the Company?

A. That is right.

Q. Did you see the computations as made by Mr. DeCicco concerning the amount of business originating in Connecticut?

A. Yes.

Q. Do you recall whether or not it was over fifty per cent for the seven months of 1938?

A. It was around fifty per cent. I do not know right now whether it was over or under.

Q. It was around fifty per cent, you say?

A. It was around fifty per cent, I recollect.

Q. The reason that in your exhibit you made the computation that there was in 1938 only a net profit of \$111.39, after the computation and deduction of the taxes, that arose principally because there was a tax on rental; isn't that so?

A. I do not understand that question.

Q. Let me go back. You did not mean to inform the [fol. 70] Court that the Connecticut tax was a tax on gross revenue, did you?

A. The only feeling I can get from that comparison is that it is a tax on gross revenue.

Q. Actually the statute says it is a tax on net income. Isn't it?

A. Well, Connecticut's use of the word —

Q. Doesn't it say that? Wait a minute now —

A. — net income is a little bit confusing, inasmuch as an accountant, and under federal returns, purchased transportation; that is, put on the books of the Spector Motor Service in accordance with ICC accounting regulations, is a deductible expense. Connecticut tax department there and the auditors have taken the stand that this item of purchased transportation which is broken into two parts, salary and equipment, is rent, and as a result have started using sixty per cent of salary and equipment as allowable deduction and forty per cent as not.

Q. Just a minute. The Connecticut tax is exactly the same as the Internal Revenue tax with two exceptions, is it not? Rent and interest are not allowed as deductions; isn't that right?

A. Yes.

Q. So that the Connecticut corporation tax is identical as a net income tax or the income tax of the Federal Government, with those two exceptions?

A. That is right.

Q. Then it is a tax on net income with the exception that no deduction is allowed for rent or interest?

A. That is right.

Q. You didn't mean to imply to the Court that it was a tax on gross income, did you?

A. The method that was used by the State of Connecticut in computing the taxes for the Spector Motor Service, made it a tax on gross income, because the item of purchased transportation is over sixty per cent or around sixty per cent of the expense of Spector Motor, and when that is disallowed it automatically makes it a gross income tax.

Q. That goes into the qualification of rent paid, does it not?

A. The State of Connecticut has called that as rent.

Q. In other words, whereas, in the Federal tax, rent is deductible, it is not deductible in the State tax under this [fol. 71] corporation tax we are now concerned with, and this sixty per cent, rather than charge 100 per cent, they fractionalized the tax and allowed the deduction of sixty per cent and charged you forty per cent on the rental equipment; is that correct?

A. They charged us forty per cent on salaries paid to the drivers, which I cannot see as rent at any time.

Q. They considered that as rent?

A. The State of Connecticut has considered salaries paid to over-the-road drivers as rent.

Q. Who pays the money to the Wallace Transportation Company?

A. Spector Motor Service.

Q. Do they pay enough money to include the salaries of the drivers?

A. The Spector Motor Service pays the drivers direct.

Q. The driver drives the rented truck, does he not?

A. Yes.

Q. And it is part and parcel of the rental of the truck, that the driver handles that truck, isn't it?

A. No. We lease the truck from Wallace Transport, but Spector Motor Service puts the driver on the truck and pays his salary.

Q. How long has that been going on, that they have been paying their own drivers of the trucks?

A. They have been paying them as long as I have been with the Company.

Q. As a matter of fact, the Spector Company used to have an owner-driver system, didn't they?

A. Yes. They still have.

Q. They still have. How many trucks are operated on the owner-driver system?

A. Off-hand I do not know now, but those drivers are also paid by Spector Motor.

Q. But even if they own the truck?

A. But they are paid for the driving with a payroll-check as a driver.

Q. You are not able to tell now how many trucks are operated under that owner-driver system?

A. There have been changes, some men gone into the Army. Some have sold their trucks. Some have quit.

Q. It is true, too, is it not, that you are trying to eliminate [fol. 72] that system? Spector Motor Company is?

A. Not to my knowledge. And I feel I would know it if they were.

Q. Under the owner-driver system, each driver has his own particular truck with his name on it?

A. They have the name of Spector Motor Service on it.

Q. Along-with the Spector Motor. That is the big name. They have their own name on the truck some place, haven't they?

A. No.

Q. They have a certain truck assigned to them?

A. An owner-operator drives his truck which he owns, which is his tool for earning a living. He needs that truck to draw a weekly salary the same as a mechanic does in a garage. He has to have tools to earn his living as a mechanic. This truck is a tool for that driver. That insures him of work whereby he will get a pay check every week.

Q. You are not able to tell us, as accountant for Spector and Wallace, how many are owner-driver trucks now?

A. There have been changes made, but at the present time I estimate that there was between forty and fifty owner-drivers.

Mr. Gaffney: That is all.

Redirect examination.

By Mr. Coleman:

Q. Mr. Arnold, can you tell us whether the system by which Spector Motor Service pays the drivers direct by a separate check, under what authority or requirement is such a practice adopted by the Company?

A. There is a number of requirements. Under the ICC administrative ruling 4 it clearly states that those men are employees of Spector Motor. Under the social security legislation or old age benefit deductions, and under State unemployment acts, they are considered our employees, and in order to make the deductions it is necessary to issue the check. We also have a Union contract which clearly states those men are our employees and they must be paid with a payroll check.

Q. Supposing a man owns a truck and operate it for Spector. Under the ICC No. 4, still must he be paid individually for his services by separate check, as a driver?

A. He is considered an employee of Spector Motor, and as such he has to be paid a payroll check.

Q. As a driver?

A. As a driver.

Q. What happens to the balance of the amount?

A. The balance of the amount, there is a separate check given him for that amount.

Mr. Coleman: All right.

Recross-examination.

By Mr. Gaffney:

Q. I overlooked two things. First of all, the percentage of Connecticut-originated business in the year 1936. Can you give us that?

A. Off hand I do not know, and I did not have charge of the books of the Company at that time.

Q. Well, 1937.

A. '37 was before my time with the Company.

Q. You do not know either one of those years?

A. No. I started in the latter part of 1938.

Q. You are familiar with the taxes that Spector Company pays, are you not?

A. Yes.

Q. What corporation taxes are paid by the Spector Company?

A. We pay corporation taxes in the state of Missouri and Illinois.

Q. What is the nature of those taxes?

A. Not being an expert, I would say that they were franchise taxes, based on the capital stock and surplus of the Companies.

Q. Then you are paying a tax in the state of Missouri and Illinois, a corporation tax?

A. Yes.

Q. And you have a terminal in Illinois, have you not?

A. Yes.

Q. And home office in Missouri?

A. Yes.

Q. Do you pay any tax in the State of Connecticut, corporation franchise tax?

A. The tax of fifty dollars a year.

Q. That is the minimum base rate, is it not?

[fol. 74] A. I do not know what the base rate is. That is usually submitted to an attorney and he says that is in order, and I pay it, give it approval.

Q. That is a tax on a foreign corporation for the privilege of doing business in the state of Connecticut, is it not?

A. That is what I have been told it is.

Q. You deny that any business is done in the state of Connecticut, do you not?

A. Yes.

Q. So it is a contradiction of fact there?

Mr. Coleman: That is certainly an argumentative question.

Mr. Gaffney: I guess it is obvious, though.

By Mr. Gaffney:

Q. Do you pay any in New York, any taxes, corporation taxes?

A. We pay an occupancy tax in New York City.

Q. An occupancy tax. What kind of a tax is that?

A. It is a tax there. I don't know whether it is City of New York or State of New York.

Q. How big is that terminal in New York?

A. I do not know the dimensions of the New York terminal. I know it consists of two buildings and a large yard.

Q. Going back now to your Illinois tax, how much does that amount to a year?

A. The Illinois franchise amounts to around seventy-five dollars a year.

Q. That is comparable to the fifty dollar tax you are paying in Connecticut, is it not? It is nominal?

A. Well, fifty to seventy-five dollars. You can compare two sums of money.

Q. You might say it was a nominal tax, might you not?

A. I do not know the interpretation of the word "nominal".

Q. How much tax do you pay in Missouri, corporation tax?

A. Missouri is around seventy-five dollars.

Q. So you have a company with a gross revenue of almost two million dollars in the last year of operation?

A. That is right.

Q. And you are an interstate carrier engaged in interstate commerce?

A. That is right.

[fol. 75] Q. And you have terminals in the state of Connecticut, New York, Illinois and Missouri?

A. That is right.

Q. And your principal place of business is in Illinois, and your home office is in Missouri?

A. That is right.

Q. And you pay to the state in taxes the sum of seventy-five dollars in Missouri, seventy-five dollars in Illinois and fifty dollars in Connecticut. That is right?

A. Yes.

Mr. Gaffney: That is all.

By Mr. Coleman:

Q. You haven't told us about the other taxes.

A. We also pay unemployment taxes in every state where we have employees, that is, Massachusetts, Connecticut, New York, Illinois and Missouri.

Q. Rhode Island?

A. Rhode Island, we have just put an employee up there, and taxes will be paid in 1942 for an employee in Rhode Island.

Mr. Gaffney: That is all.

By Mr. Coleman:

Q. Can you tell us the gross amount of those unemployment taxes which you pay throughout the system?

A. The amount, around 2,000 to 2,500 dollars per month.

Mr. Coleman: All right, that is all. That is all.

(Witness excused.)

Mr. Fisher, just for two questions.

SIMON FISHER, recalled as a witness on behalf of the plaintiff, having been previously duly sworn, testified as follows:

Mr. Coleman: The last exhibit that was put in was the balance sheet of Wallace. Would you give me an extra copy of that?

(Mr. Arnold handed paper to Mr. Coleman.)

Direct examination.

By Mr. Coleman:

Q. Profit and loss statements of trucking companies are a matter of public record with the I. C. C., are they not, in Washington?

A. That is right.

[fol. 76] Q. As a result, the figures are available to the industry in general?

A. That is right.

Q. Are you familiar in general, from your experience and contact with the industry, as to the figures and proportions of profit and loss statements running through the industry in general?

A. Yes, I am.

Q. The profit and loss statement of the Wallace Transport Company which has been put in evidence; is that fairly representative of conditions throughout the industry?

A. The operational costs.

Q. The operational costs?

A. Yes, I would say so.

Q. Wallace Transportation Company trucks are all one hundred per cent used by Spector, are they not?

A. That is right.

Q. I note that, in the sheet before me, the Wallace for this period ~~is~~ at an operating loss.

A. Yes, sir.

Q. If that is so, Mr. Fisher, how does the individual owner-operator, how does he actually make a living if, as these sheets reflect here, there is an operational loss?

A. Well, as to the individual owner-operator, the revenue from which the expenses would be deducted is net in the salary paid to drivers on there. Now actually the individual hired operator does not now, now less than ever, and never did make any so-called profit on the use of his equipment.

In the early days of the trucking business, the thing that enabled the trucking business to grow was the fact that there were large numbers of men who owned tractors and trailers, and there were numbers who were willing to buy tractors and trailers and put them to work with a common carrier on various types of rates and arrangements which were made. Those schedules fluctuated, and the types, the bases have fluctuated and changed from time to time.

They were willing to put them to work so that they would get a job, this job being the job of driving these trucks from one point to another. And ordinarily they were paid. [fol. 77] In the beginning they were not paid a salary. Back in 1932 or '33, there was no separation as to salary. But as the Federal regulation came in, and as insurance requirements came in, compensation insurance particularly, and as the business became Unionized, a definite part of that was salary. But when the man got through paying himself plus his helper for the compensation for driving that truck from the point of origin to the point of destination, what he had left is actually the same thing as you see on that balance sheet. He had just about enough left to pay the expenses of the trip, that is, the road expenses and other things.

By the Court:

Q. Do these salaries in Exhibit 16 include any drivers' salaries paid by Wallace?

A. May I see? (Pause.) These would be shop salaries, maintenance, administrative employees and some local cartage drivers salaries. Not to a great extent. That is, some of this revenue here was derived from the operation of about five trucks in and around Chicago, and it would include some of that. But whatever the amount, it would be balanced off either way. It does not include the over-the-road salaries at all, neither the revenue nor the expense.

Q. It does not include the salaries of officers of the Corporation?

A. No, sir, it does not. We have never drawn salaries in the Wallace Company as compensation as officers.

By Mr. Coleman:

Q. So the owner-operator made his living by his salary as a driver?

A. Primarily that is what it was. In other words, the only thing that that truck meant to him was it provided the means by which he was able to go to work for, say Spector Motor, because without the truck Spector Motor would not and could not have put him to work, because Spector Motor did not have a truck that he could drive. And that is the way the trucking business grew. But the amount that he had left was just an amount equal for his [fol. 78] driving. Now, under administrative ruling 4, the owner, when he drives, is an employee of the carrier and his helper, too, what we call a helper.

Q. You have used a trade term in the course of your testimony, Mr. Fisher, local carters or local cartage?

A. Local cartage.

Q. Is that local cartage divorced or separated or distinct or different from your interstate commerce business?

A. No, it is a part of our through line-haul operation. We call it by that term merely to designate the fact that it is the part of the line-haul operation from the shipper's platform to our consolidation and distribution platform, or the converse. It is still a part. Our rates are based on store-door delivery, and that is a part of the line-haul service that we charge for—

Q. That is all.

A. —that our rates are based on in the tariff.

Mr. Coleman: That is all.

(Witness excused.)

The plaintiff rests, your Honor.

ALFRED DeCICCO, called as a witness on behalf of the defendant, being first duly sworn by Clerk Pickett, testified as follows:

By Clerk Pickett:

Q. Your full name?

A. Alfred DeCicco.

Q. Where do you reside?

A. 19 Farnham Road, West Hartford.

Direct examination.

By Mr. Gaffney:

Q. You are employed by the State tax department, Mr. DeCicco?

A. Yes, sir.

Q. You have been for over a period of years?

A. One month and a few days shy of seven years.

Q. What is the nature of your duties there?

A. I am a senior tax examiner, and I go out in the field and conduct audits of miscellaneous corporations, savings banks and trucking companies.

[fol. 79] Q. Did you inspect the books of the Spector Motor Transport Company?

A. Yes, I did.

Q. What was your purpose in going out there?

A. To determine the tax liability of the corporation.

Q. In examining the books did you allocate a certain percentage of the business from the books to Connecticut?

A. Yes, I did.

Q. That is business originating in Connecticut?

A. Originating in Bridgeport and New Britain.

Q. Did you make an estimate of the percentage of the amount of business that did originate in Connecticut for certain years?

A. Yes, I did.

Q. Starting with what year?

A. Fiscal year ended May 31, 1936.

Q. This is from an examination of the books of the Spector Company?

A. That is right.

Q. These percentages you have got here, are they not?

A. Yes, sir.

Q. What was the gross revenue of the Spector Company for the year 1936?

A. \$233,787.78.

Q. Of that gross revenue for that year, how much is attributable to Connecticut business?

A. \$111,709.97.

Q. What percentage is that?

A. 0.477826.

Q. A little better than 47 per cent?

A. A little better than 47 per cent.

Q. What was the gross income or revenue for the year 1937?

A. \$440,025.92.

Q. And how much of that was attributable to Connecticut?

A. \$166,610.06.

Q. Percentage-wise, what was the percentage of that business attributable to Connecticut?

A. 37.8637.

Q. For the year 1938 was it a split year?

A. The year 1938, yes. There is a period ended May 31, 1938, that is June 1 to May 31, and then seven months ended December 31, 1938.

[fol. 80] Q. For the first five months what was the gross revenue?

A. \$318,786.85.

Q. How much of that revenue was attributable to Connecticut business?

A. \$150,296.95.

Q. What percentage is that?

A. 47.1465.

Q. For the last seven months of 1938, how much was the gross revenue?

A. \$432,087.39.

Q. Of that how much was Connecticut business?

A. \$218,471.73.

Q. And the percentage was what?

A. 50.5619.

Q. The percentage of Connecticut business for those seven months ran over 50 per cent of the entire gross business done by the Spector Motor Corporation?

A. That is right.

Q. For the year 1939 what was the gross revenue?

A. \$1,202,210.35.

Q. Of that gross revenue, how much was attributable to Connecticut?

A. \$505,777.47.

Q. And the percentage was—

A. 42.0706.

Q. And for the year 1940?

A. \$1,723,510.65, gross everywhere, and \$587,973.59 Connecticut, or a percentage of 34.1149.

Q. And that business attributable to Connecticut was business originating in Connecticut?

A. New Britain and later in Bridgeport.

Q. Mr. Coleman: Would your Honor take a recess at this point?

The Court: Yes, we will take a recess till two o'clock.

(At 12:58 P. M. a recess until 2 P. M.)

Wednesday, June 17, 1942, Afternoon Session.

ALFRED DeCICCO, a witness called on behalf of the defendant, resumed the stand and testified further as follows:

Cross-examination.

By Mr. Coleman:

Q. Mr. DeCicco, when we suspended, you had just finished testifying about the allocation which you made, and [fol. 81] you testified as to the percentages of gross business which originated in Connecticut.

A. That is right.

Q. In the first place, didn't you ascertain as a result of your examination that substantially fifty per cent of the

amount collected by the Spector Motor Service for this freight which originated in Connecticut was collected outside of Connecticut?

A. Collected, yes.

Q. Outside of Connecticut?

A. Yes.

Q. That is substantially true, is it not?

A. Yes.

Q. Showing you Exhibit 8 of the relative mileage in various states over which Spector operates, it is true, is it not, that even if this business which originates in Connecticut the bulk of the work is done outside the state of Connecticut by Spector Motor Service?

A. Well, according to this exhibit as far as the travelling, but I did not enter into the mileage feature of it.

Q. You did not investigate that phase of it at all?

A. No.

Q. I show you a computation of the allocation fraction and ask you if that is not a true copy of the allocation which you made?

A. I believe it is.

Mr. Coleman: May that go in as a full exhibit?

(Plaintiff's Exhibit 97: Statement entitled "Computation of Allocation Fraction.")

By Mr. Coleman:

Q. And I show you a computation of the tax based on the allocation fraction which was computed in the preceding exhibit. Is that a true copy of the computation of the tax in tabular form?

A. I believe it is.

(Plaintiff's Exhibit 18: Statement entitled "Computation of Tax.")

By Mr. Coleman:

Q. I show you a copy of our Supplement to the General Statutes and ask you in what section you found the directions for determining the allocation fraction. I think I have opened it for your convenience to the proper place.

A. That is section 356e, chapter 66b as amended.

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[fol. 82] Q. That is from what Supplement?

A. The 1939 Supplement.

Q. The 1939 Supplement to the General Statutes of Connecticut?

By the Court:

Q. What is that section again?

A. 356e.

By Mr. Coleman:

Q. Where specifically in that 356e is a method for setting up an allocation fraction outlined?

A. The entire section deals with the allocation, distinguishing between two different types of income, that income from so-called surplus earnings and income from the ordinary operations of the corporation.

The allocation deals with this case. Do you want me to read it?

Q. Yes, please. Would you read the allocation which the department contends deals with this specific case at bar?

A. (b) when derived from the manufacture, sale or use of tangible personal or real property, the portion thereof attributable to business within the state shall be determined by means of an allocation fraction to be computed as the simple arithmetical mean of three fractions. The first of these fractions shall represent that part of the average monthly fair cash value of the total tangible property held and owned by the taxpayer during the income year which is held within the state, without deduction on account of any incumbrance thereon but excluding any property the income of which is separately allocated under the provisions of this section. The second fraction shall represent the part of the total wages, salaries and other compensation to employees paid by the taxpayer during the income year from offices, agencies or places of business within the state, provided all such payments shall be assigned to the office, agency or place of business of the taxpayer at which the employee chiefly works or from which he is sent out or with which he is chiefly connected. The third fraction shall [fol. 83] represent the part of the taxpayer's gross receipts from sales or other sources during the income year, excluding any income which is specifically allocated under subdivision (1) and (2), which is assignable to offices,

agencies or places of business within the state, provided such receipts shall be assigned to that office, agency or place of business at or from which the transactions giving rise thereto are chiefly negotiated and executed."

Q. That is the formula that was used by you in the department? Is that so?

A. That is right.

Q. That formula, Mr. DeCicco, by its terms applies only to businesses which are engaged in the manufacture, sale or use of tangible personal or real property; is that not so?

A. That is so, yes.

Q. A different direction is contained in the statute for income which is derived from business other than the manufacture, sale or use of tangible—

A. That is right.

Q. In the case of businesses which are engaged other than in the manufacture, sale or use of tangible personal or real property, the allocation according to the statute is to be determined by the tax commissioner; is that so?

A. That is right.

Q. Is it your understanding that the Spector Motor Service is engaged in either the manufacture, sale or use of tangible personal or real property?

A. Yes, sir.

Mr. Gaffney: Well—the answer to the question is in.

Mr. Coleman: Do you want it stricken?

Mr. Gaffney: I was going to put Mr. Steege on if you want to ask that question.

Mr. Coleman: All right. I think that is all, Mr. DeCicco, thank you.

(Witness excused.)

OTTO P. STEEGE, called as a witness on behalf of the defendant, being first duly sworn by Clerk Pickett, testified as follows:

By Clerk Pickett:

Q. Your full name?

A. Otto P. Steege.

[fol. 84] Q. Where do you live?

A. 190 Brimfield Road, Wethersfield.

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Direct examination.

By Mr. Gaffney:

Q. You work for the State, Mr. Steege?

A. State Tax Department.

Q. What is your position?

A. Corporation director.

Q. Director of the corporation division of the State tax department?

A. That is right.

Q. You have been director for how many years?

A. Five years.

Q. You have charge of all the levying and collection of corporate taxes, have you not?

A. That is correct.

Q. You have assessed a 60 per cent tax on rent against Spector Motor Service Corporation, have you not?

A. We have disallowed 40 per cent.

Q. Disallowed 40 per cent?

A. Taxed 40 per cent, in other words.

Q. Taxed how much?

A. We taxed 40 per cent of the total paid.

Q. What is the basis for that computation?

A. In order to answer that question it is necessary to go back to the history of the tax itself, which was enacted by the general assembly in 1935 as a result of a two year survey conducted by the special tax commission appointed by Ex-Governor Cross in 1933. This commission recommended that a franchise tax be imposed based upon the income which is reported to the Federal Government, with the exception that interest and rent paid are not deductible.

With the enactment of this statute, and because of the fact that no other state in the country in imposing corporate taxes disallowed rental payments, it was necessary for the department to establish some definite application so far as the term "rent" was concerned. In so doing, the department requested of several of our large truck transportation [fol. 85] companies—in connection with a large chain store that does operate in Connecticut, we suggested that they furnish to us experience tables so far as the cost of operation of trucks is concerned. It was found that in the various cases submitted, that the percentage applicable to the use of the truck itself varied anywhere from 37 to 43 and

44 per cent. The department realizing that it would be impracticable to establish a separate ratio for each individual corporation, there being 12,000 of them, decided to strike a happy medium and disallow 40 per cent as a rental charge for the use of equipment. This ratio has been universally applied and to my knowledge has never been questioned in the courts until the present time.

The particular taxpayer, which is one of our largest taxpayers incidentally, did threaten to bring suit to settle the question. However, after going into the matter very thoroughly they agreed that perhaps 40 per cent was fair, both to the State and to the taxpayer, and ever since that time we have applied the use of the ~~40-60~~ ratio.

Q. So that 40-60 ratio was based on the experience of trucking companies?

A. That is correct.

Q. Those included what companies?

A. The Consolidated Motor Lines, the Seaboard Freight Lines, the McCarthy System, the Adley Express, and two or three others.

Q. And the Atlantic & Pacific?

A. The Atlantic & Pacific Tea Company happened to be the taxpayer to whom I made reference.

Q. It is on the basis of that experience of the trucking companies themselves that this 60-40 per cent is what is—

A. Determined.

Mr. Gaffney: That is all.

Cross-examination.

By Mr. Coleman:

Q. Mr. Steege, this problem about the 60-40 was first raised in connection with the A & P?

A. In 1936, that is correct.

Q. These truckers that supply the A & P are short haul [fol. 86] as distinguished from long haul truckers, such as Spector, are they not?

A. I would not say so.

Q. The ones that you mentioned specifically have to have their trucks in their own garages every night, do they not, and do as a matter of practice?

A. I wouldn't say so.

Q. You don't know, do you?

A. I do not.

Q. You do not. Besides that, Mr. Steege, the truckers whom you have described here are contract carriers, are they not?

A. That is correct.

Q. They are not common carriers such as the Spector?

A. I could not say definitely.

Q. You do not know as to that point?

A. No, I do not.

Q. The statute in its language—just a moment, please. (Pause.) Maybe you can find it for me quicker, but would you find for me in the statute the passage (which prohibits the deduction of rent as a credit (handing book to the witness))?

A. This is not the whole statute, Mr. Coleman. That particular section was not amended by the 1939 session.

Q. It may be in '35 (handing book to the witness).

A. What was your question again, Mr. Coleman?

Q. Yes, would you find that portion of the statute which prohibits the deduction of rent as a credit?

A. 419c, 1935 Cumulative Supplement.

Q. Would you mind reading into the record that portion which deals with that specific section?

A. It is necessary to read the whole section.

Q. All right.

A. "In arriving at net income as defined in section 417c, whether or not the taxpayer is taxable under the federal corporation net income tax, there shall be deducted from gross income all items deductible under the federal corporation net income tax law effective and in force on the last day of the income year, except (1) federal taxes on income or profits, losses of prior years, interest received from federal, state and local government securities and specific exemptions, if any such deductions shall be allowed by the federal government and (2) interest and rent paid during the income year."

Q. So there is nothing in the statute about 60 per cent of rent being allowed, is there?

A. Definitely no.

Q. That was a ruling by your department?

A. That is correct, sir.

Q. That is a rule of convenience or a rule of thumb adopted by your department?

A. It is a regulatory provision adopted by the department.

Q. When was that adopted?

A. Immediately upon the establishment of the law.

Q. You interpret money paid for the use of a truck, as rent under that statute?

A. We do, yes, a portion of it.

Q. You allow the taxpayer a portion of what you construe to be the rent?

A. That is correct.

The Court: I would like to ask one question.

Mr. Coleman: Yes, your Honor.

By the Court:

Q. Is that on the basis that you consider from your experience that a specific percentage of this amount paid for trucks is what is defined as rent?

A. Rent for the use of the equipment itself. The idea was, Judge, to distinguish between the use of the vehicle itself or the piece of equipment, so to speak, from other normal expenses incurred in the operation of the piece of equipment. We make that distinction also, I might add, with respect to the use of road building equipment which is commonly rented from one contractor to the other.

By Mr. Coleman:

Q. I show you a paper and ask you if you are familiar with that paper or the original from which it was copied?

A. Yes, sir.

Q. What is that?

A. This represents a memorandum written by Assistant Attorney General Joseph P. Smith concerning the case of the A & P Stores.

[fol. 88] Q. That is dated November 20, 1939?

A. That is correct.

Q. Does that refresh your recollection as to about the date when this practice of 60-40 was adopted by your department?

A. No. I must say that the 60-40 ratio was adopted back in 1936. In order to clarify your question I would have to go into the history of the case of the A & P.

Q. Even though it was adopted in 1936, the Attorney General was not consulted about it until 1939; is that correct?

A. There was no official opinion rendered on it until 1939. That is correct.

Mr. Coleman: I offer an opinion from the Assistant Attorney General, Joseph P. Smith, in evidence as incorporating the policy of the department under which it is bringing this action.

Mr. Gaffney: Objection is made, your Honor, on the basis that an Attorney General's opinion is not binding on any department of the state government, and is purely and simply the opinion of an individual. Even though he might be connected with the state government, nevertheless it has no more force and effect on the state department, if an administrative head of the state government wants to ignore it, any more than a man on the street. It is purely hearsay.

Mr. Coleman: It is my understanding from the testimony of the witness that the opinion conforms in fact to the practice obtaining in the department.

Mr. Gaffney: The opinion itself carries a number of citations in here which obviously cannot have any bearing on the case in question, and it is quite beyond the whole question here, your Honor.

The Court: Do you claim it as relevant to the question of the administration of this tax—

Mr. Coleman: 60-40, that phase of the tax action, that is what this opinion is concerned with. And as I understand it, the department is in accord with the opinion here rendered on the 60-40.

[fol. 89] The Court: It may be admitted.

(Plaintiff's Exhibit 19: Three sheets, copy of letter, November 20, 1939, to Hon. Charles J. McLaughlin from Francis A. Pallotti, Attorney General, By Joseph P. Smith, Assistant Attorney General.)

Mr. Coleman: That is all.

Mr. Gaffney: That is all.

Mr. Coleman: Are you going to rest now?

Mr. Gaffney: Yes.

SIMON FISHER, recalled as a witness on behalf of the plaintiff, in rebuttal, having been previously duly sworn, testified as follows:

Direct examination.

By Mr. Coleman:

Q. Mr. Fisher, you have been sworn. The last witness, Mr. Steege, told us about certain figures which he collected from contract carriers supplying such institutions as the A & P. From your experience as a trucker and the type of business that you are in, are figures collected from that type of carrier a fair index of the comparable for long-haul carrier a fair index of the comparable for long-haul carriers such as the Spector?

A. No, sir, they are not.

Q. What is the difference?

A. Well, there are many differences. The road cost per mile of operation on a long haul is in many ways higher than the per mile road cost on a short haul. ~~Now the companies~~ he mentioned are comparatively short-haul lines going from New York, extending generally from New York to points in Connecticut and Massachusetts. But their trucks will go from their terminal in New York, for instance, to a terminal in Bridgeport, at which terminal their load is delivered. The truck may go from there into a garage and be serviced or checked. It may go out the next day or that night to another intermediate point. At no time will the road outfit travel for an extended uninterrupted trip of, I would say, more than a hundred miles or perhaps 125 miles at the very most. [fol. 90] The cost per mile of a long-haul operation for motor fuel—in the first place, you need much larger and heavier equipment to run across the mountains that we go through Pennsylvania and also around Buffalo and upper central New York. The tires, for instance, they use, short-haul operation, that has many stops. And their weight is much—their average tonnage per truck-load is less, and therefore they do not need tires with as large a weight, load carrying capacity, as the long-haul. They use usually—since they use smaller tractors—many of them are Fords and Chevrolets and lighter equipment, even though they might use Whites or International. They use 9.20 tires, some of them even smaller size, whereas ours are 10.20.

There is a terrific amount of heat generated in our trucks, in a tire going 250 or 300 miles at a time without stopping. And they do drive—they will maybe stop for a half hour or so. There are many other costs. The maintenance costs are much lower on a short haul because that is a short haul intermediate point operation, where their operation consists of service from one terminal to another within a small geographical area. The trucks are in a garage or subject to maintenance and service practically every night, which lowers the maintenance cost. And many other factors of that kind would not make the short-haul cost comparable.

That is compensated for, that is, the higher road operating cost of the long-haul trucker, so to speak, is compensated for by the fact that his revenue per ton mile is ordinarily higher due to the fact that he loads his trucks heavier and can load them heavier because there is no need for so much interruption of loading and unloading. But as far as the operating cost per mile, it is much higher than short-haul. These A & P carriers, of course, there is no basis at all to compare that type. They are more of a city to city and store to store warehouse to store operation, with many stops and starts and the truck is at rest; oh, I would say one-third of its life it is not even working, or maybe perhaps more than that, [fol. 91] which makes a big difference in the matter of wear and tear, etc.

Mr. Coleman: You may inquire.

Cross-examination.

By Mr. Gaffney:

Q. That is not true about Consolidated, is it, Mr. Fisher?

A. The latter part is not quite applicable to Consolidated, but I would say Consolidated is what we call a short-haul operation. They go from Connecticut to New York and they have intermediate terminals in between.

Q. Consolidated delivers out to Chicago, does it not?

A. Consolidated?

Q. Yes.

A. Not as far as I know.

Q. Are you sure about that?

A. I would say not. Consolidated Motor Freight Lines?

Q. That is right.

A. Is that the Arbors?

Q. It formerly used to be Arbors.

A. I would say not, sir.

Q. Consolidated owns over 800 trucks, don't they?

A. Oh, yes, it is a large operation. They serve all these small towns throughout Connecticut, and I think some in Massachusetts and down to New York.

Q. They make long hauls?

A. They are not what we call a long operation.

Q. If they haul to Chicago, it is a long haul.

A. I think I will have to differ with you, Mr. Gaffney. They do not haul to Chicago. If they do, I haven't been awake for a long while.

Q. If they do, what you said does not apply to those trucks that haul to—

A. Evidently their road costs would be the same as ours. Any trucks that would go from Connecticut to Chicago.

Q. It is an interstate carrier. Consolidated is, is it not?

A. Yes, but it is not the nature of their operation that determines the cost. It is the geographical distances and the terrain that they must go through, and it is the steadiness and consistency of the use of the truck on the road, the wear and tear, the heat generated by the tires by steady pounding, [Vol. 92] hour after hour. They have many stops that the long hauls do not have. Can't stop—

Q. It is quite possible that a short-haul truck with the braking and starting and stopping and red lights, etc., has greater wear and tear than a long-haul truck does.

A. They may have some more brake wear.

Q. What about engine wear and the shifting of gears?

A. Well, of course they are trucks and they are made for that. The number of starts and stops on the engine wear, while in that way they may have a little more wear—but the only thing that wears out a truck or a motor is heat. And heat comes from steady grinding, hour after hour, without giving the motor a chance to cool off, and the same thing is true of tires.

Q. Don't you think a motor gets heated in low gear when it is left in, and starting in low or second and high?

A. Of course, there is a certain temperature of heat that we all know that a motor must generate in order to operate at its highest efficiency. It is the steady pounding of those moving parts under that heat, and higher, without a chance to cool off. The ordinary heat of a motor to operate at high—

est efficiency would be about 180 degrees. I believe it is about that.

Q. Is Adley an interstate carrier?

A. Adley operates between New York and Connecticut lines.

Q. Is McCarthy an interstate carrier?

A. McCarthy is an interstate carrier. Those are all what we call short-haul. McCarthy has Connecticut and Massachusetts dotted with his terminals all over, and those trucks go 25, 35, 45, 50 miles from one terminal to another. And on the other hand I might say this too, that McCarthy, Consolidated, Byrolly whom I think has been bought out by Consolidated, a much larger proportion of their equipment is small, virtually pick-up equipment, sixteen foot trailers and sixteen foot chassis on their trucks, because they only go short distances and can only accumulate a comparatively small amount of tonnage within a definite time and they can [fol. 93] not use these great big twenty, ten ton outfits, and fifteen ton outfits.

Q. Consolidated does, does it not?

A. They do have large outfits. I mean the proportion of it. We have none of that small equipment. We could not possibly transport from Chicago to New York on any kind of an economic basis because of this relative cost, one of the things.

Q. It is quite possible that the deterioration of a truck is greater on a short haul than on a long haul, is it not?

A. It is possible, but from my experience and my knowledge and contact with the industry and study of the figures, I would say that that is not the case.

Mr. Gaffney: That is all.

The Witness: I would say that the cost per mile of operation on a long haul, and that is a thousand mile haul like ours, is higher.

Mr. Coleman: That is all.

Mr. Gaffney: Just one question.

By Mr. Gaffney:

Q. Does the Internal Revenue Bureau allow a larger percentage depreciation on long-hauls than on short-hauls?

A. Depreciation, you mean for-obsolescence?

Q. And deterioration.

A. On the truck?

Q. Yes.

A. I do not know, but I do not think so. I do not think for federal income tax purposes they pay any attention to it. They regard a truck as having a uniform life for the purpose of the federal income tax act, and I do not know whether they make any distinction. I would say they probably do not.

Q. And this state tax is patterned after the federal tax, except with the exception of rent and interest?

A. So I am informed.

Mr. Gaffney: That is all.

Mr. Coleman: The plaintiff rests, your Honor.

Mr. Gaffney: We rest.

Mr. Coleman: We both agree that this is a case that [fol. 94] ought to be briefed rather than argued, unless your Honor feels differently.

The Court: No. If you wish, you may submit briefs. How much time do you want?

Mr. Gaffney: A minimum of two weeks, Your Honor.

(Discussion regarding briefs.)

The Court: Briefs by July 1.

Mr. Gaffney: We will stipulate that the cost be split between the two sides on the Court's transcript.

(Hearing closed at 2:40 P. M.)

Reporter's certificate to foregoing transcript omitted in printing.

[fol. 95] IN UNITED STATES DISTRICT COURT.

[Title omitted].

APPLICATION FOR PERMISSION TO SUBMIT ADDITIONAL EVIDENCE—October 28, 1942

The Defendant in the above entitled case requests of this Honorable Court's permission to submit additional evidence for the reason that:

1. Such evidence is pertinent and material to a decision in this case.

2. The evidence desired to be submitted is newly discovered and was not available as of the date of the hearing before this Honorable Court on this case.

The Defendant: By Francis A. Pallotti, Attorney General. Leo V. Gaffney, Assistant Attorney General.

[fol. 96] IN UNITED STATES DISTRICT COURT DISTRICT OF
CONNECTICUT HARTFORD, CONNECTICUT

Civil Action. File No. 723

SPECTOR MOTOR SERVICE, INC., a Corporation, Plaintiff,

CHARLES J. McLAUGHLIN, Defendant

STATEMENT OF EVIDENCE

Minutes of continued hearing held on Friday, November 6, 1942, at 11:30 A. M. on the following matters:

(1) Motion to substitute party defendant.

(2) Additional evidence.

Before: Honorable J. Joseph Smith, District Judge.

Appearances:

For the Plaintiff Day, Berry & Howard, Esqs. 750 Main Street, Hartford, Connecticut. By Cyril Coleman, Esq. Nair & Nair, Esqs. City Hall Building, New Britain, Connecticut. By Israel Nair, Esq.

For the Defendant Honorable Francis A. Pallotti, Attorney General. By Leo V. Gaffney, Assistant Attorney General.

Mr. Coleman: Your Honor, I have a motion to which there is no objection. It has been on file for some time. It [fol. 97] is dated September 3. And it is a formal motion to substitute Walter Walsh who is the present tax commissioner, and I understand from Mr. Gaffney that there is no objection to the granting of that motion.

Mr. Gaffney: No objection.

The Court: The motion may be granted.

I understand there is no objection to permission to submit additional evidence, although there may be an objection—

Mr. Coleman: (Interrupting).—to the evidence itself, that is right. I have no objection to the case being reopened for the purpose of taking evidence.

Delbert Harold Rau, called as a witness on behalf of the defendant, being first duly sworn by Clerk Hector, testified as follows:

By Clerk Hector:

Q. What is your name, please?

A. Delbert Harold Rau.

Q. Where do you live?

A. 175 Francis Street, New Britain.

Direct examination

By Mr. Gaffney:

Q. What is your position, Mr. Rau?

A. Office manager, New Britain Rationing Board.

Q. That is the New Britain Division of the OPA?

A. Yes, sir.

Q. How long have you been the office manager of the New Britain Division of the OPA?

A. January 1st.

Q. You have appeared here under a subpoena, Mr. Rau?

A. Yes.

Q. You were directed to bring an application with you, were you not?

A. I have those applications.

Q. Was there an application made to the New Britain Rationing Board for tires by the Spector Motor Service Company?

A. Yes.

Mr. Coleman: I objected to that, your Honor. The application is the best evidence of that fact.

[fol. 98] The Court: A preliminary question, I assume, for the production of the offer, of the application.

Mr. Gaffney: That is right.

The Court: It may be admitted as preliminary.

By Mr. Gaffney:

Q. The answer, Mr. Rau?

A. I have applications in my possession that I brought with me.

Q. Application of the Spector Motor Service, Incorporated?

A. Yes; sir.

Q. For tires?

A. That is right.

Q. Would you produce them, please?

A. There are two applications. (Witness produced papers.)

Q. And the date of these?

A. This was 10/8/42. This is 10/8/42.

Mr. Coleman: I show you this application; your Honor, and object to it on the ground that it does not appear from the application that it is signed as the regulations on the back require, by a person who is an officer of the corporation or its duly authorized agent. It is signed by one Thomas Cooty, I believe, who I am informed is a lessee of the Spector Motor Service but certainly no officer, agent, or officer with the duly authorized power as required by the regulations themselves as you will see from the back of the application, and I may add that anyway it seems to me that the application is immaterial as bearing on the issues in the case, because whether or not an application is filed in Connecticut for a tire it seems to me has no bearing on the issues as they were produced in Court here sometime ago.

Mr. Gaffney: The point I make on that is this, if your Honor please. On that application is the question "How many trucks are under the jurisdiction of the local rationing board?" And the answer to that shows "200 trucks", which is the entire fleet. If that is true, it has a direct bearing on the case. I might clear up that question of the regulations on the back. I might ask Mr. Rau another question on that, if your Honor permits.

[fol. 99] The Court: "Garaged or stationed within the jurisdiction of the board".

Mr. Coleman: You will recall, your Honor, that at the trial there was evidence developed that I believe there were five trucks stationed in Connecticut as a part of the interstate business, and that they were these pick-up trucks which ran

around Connecticut picking up freight and bringing it into the terminal where it was to be sorted on its way West.

It seems to me this application does not show any inconsistency with our position as maintained at that trial, that those were a part of the pick-up service incident to interstate commerce; and that, therefore, this application does not indicate anything to the contrary.

Mr. Gaffney: If your Honor please, if there are 200 trucks, which is the entire fleet, garaged or stationed within the jurisdiction of the New Britain Board, it certainly is evidence of the fact that this is the situs, domicile of a business in the state of Connecticut, and they actually are doing business in the state, and for that reason I am introducing this.

The Court: Do you seriously contend that 200 trucks are actually garaged in New Britain and have their headquarters there, in view of the testimony which was already introduced as to the nature of the leased premises in New Britain?

Mr. Gaffney: I might say this, your Honor. This is an application. The applicant in the first line is set out to be the Spector Motor Service, Incorporated. The tires, if any, are issued to the applicant, not to—

The Court: (Interrupting) The applicant's principal office is stated to be in New Britain, in this application, although considerable evidence has already been introduced that that is not the principal office.

Mr. Gaffney: On the other hand, this is not my statement. I did not fill out that application. This is an application of the Spector Motor Service Corporation. They are condemning themselves through their own mouths. And this is [fol. 100] the evidence we want to put in here.

The Court: The Court would like to know if the state, or the defendant, claims that the principal office or the place where 200 vehicles are garaged or stationed, is as a matter of fact in New Britain.

Mr. Gaffney: Well, it may not be. But the company here has made an application stating that to be the fact. Now, if the Company states that to be the fact for the purposes of conducting Connecticut business and getting tires through Connecticut, and states on an application in another jurisdiction a different set of facts, I do not see why we should inquire into that, your Honor, because they have condemned themselves, as I have said before, in their own application

here, as doing a Connecticut business and being domiciled to do a Connecticut business. And that is the point of this application, why I am asking to have this application admitted. They have denied—

The Court: (Interrupting) If there is any contention seriously that these statements are true, of course it would be a question on which evidence, proper evidence, would be admissible. The Court, however, does not believe that the parties should attempt to try here the question of whether or not there is any violation of the price administration regulations.

Mr. Gaffney: That is not what I am seeking, your Honor. If your Honor recalls back to the case, the one question which was in issue was whether or not they were actually conducting a Connecticut business. (That is the nub of the case. We contended right along, with their warehouse in New Britain and the Connecticut business they do, that they were, under the cases, conducting a Connecticut business—and also with the registration with the Secretary of State as a foreign corporation doing business in the state of Connecticut. To supplement and add an additional facet to the diamonds we are submitting this application made by the Spector Motor Service Corporation to the New Britain Rationing Board. The fact alone that the Spector Motor Service [fol. 101] Ice Company applies to the New Britain Rationing Board, is evidential of the fact that they are conducting a business in the state of Connecticut.

Secondly, the fact that they have alleged on that application that there are 200 trucks within the jurisdiction of that Board, is an additional fact, that they are operating and doing business in the state of Connecticut. Whether or not it is true, they have stated that fact themselves. I did not make out that application. And the point I am making is—

The Court: (Interrupting) And you do not seriously contend that that is the fact?

Mr. Gaffney: I seriously contend that they have committed themselves to that fact. And I claim that each one single operation does not make up the doing of a business in a state. But when you combine a lot of operations such as the filing with the Secretary and all these numerous things that were brought out in the trial, plus this which I feel is clearly evidential, your Honor, and will supplement and add to and just

draw the noose tighter around the whole question, showing there actually has been and is being conducted in the state a business by the Spector Motor Service Corporation, for this reason I believe this is additional evidence which was not available, which is admissible and bears exactly on the point in controversy.

Mr. Coleman: All I say, your Honor, if such admission is to be tortured out of this application, the preliminary should be observed by showing that it was made by a duly authorized agent of the corporation. Of course, if they cannot show that, neither can they show the fact which they are attempting to prove by this application.

Mr. Gaffney: I might add further, your Honor, another feature of this case was that Spector did not own any of his trucks. They were all owned either by independent operators or the Wallace Transportation Company. I just want to show that the Spector Company have admitted and acknowledged the fact that they are doing business in the state [fol. 102] of Connecticut, when they applied to the Local Rationing Board in New Britain for tires. If they were not they would not be entitled to the tires. They would have to go to whatever place they were doing business to get their tires, your Honor.

The Court: Of course I have not had time to go through this application thoroughly. Is it your contention that you are merely putting in the application which shows that the nature of the business for which these tires were to be used is the carriage of goods from point to point within the state?

Mr. Gaffney: I don't care about that, your Honor. I am not making that claim, your Honor. I don't care what they do once the tires are issued. The very fact that they made application to the New Britain Rationing Board is the fact that I want to have your Honor take cognizance of. In making application to the New Britain Board they have acknowledged they are doing business in New Britain and they are within the jurisdiction of the New Britain Rationing Board. In other words, as I said before they would not be entitled to any tires. They would have to go to the Rationing Board where they did business and get their tires from that Rationing Board. I don't care, your Honor, what happens to the tires after they are issued.

Mr. Coleman: There was a second one offered by Mr. Gaffney. I do not know whether it bears the same legend as

the first one. You will notice after 8(k) there is a statement that it is to be used as an interstate commerce carrier. And I notice there is the same thing mentioned in the one your Honor has just been reading, right under 8(k).

The Court: What is the position of counsel on the question of the authority of the person who purports to have signed these applications?

Mr. Gaffney: I might ask Mr. Rau a question or two on that. Perhaps it might clear it up.

By Mr. Gaffney:

Q. Mr. Rau, was there a regulation that the application had to be signed by either an officer or the specified agent?

[fol. 103] Mr. Coleman: I object to that.

Mr. Gaffney: You just mentioned it yourself that it is expressly on the back of this application.

Mr. Coleman: On the back of that application. That is the best evidence.

That is oral testimony.

Mr. Gaffney: I was just asking him to affirm whether or not that was the regulation. He will affirm it, I believe.

Mr. Coleman: I object to it because I want to stick to the best evidence.

The Court: It may be excluded.

By Mr. Gaffney:

Q. Mr. Rau, was that the regulation as it was printed on the back of the applications? Was that amended and changed later?

A. There have been many amendments.

Q. Is there a regulation now that, before anyone is permitted to obtain tires, the application must be made by either an officer or a specified agent?

Mr. Coleman: I object to that on the same ground, the best evidence. It is not proper, I submit that there be oral testimony about a regulation which may be proved in the best evidence by producing the regulation itself.

The Court: It may be excluded.

By Mr. Gaffney:

Q. Mr. Rau, who made this application to the New Britain Rationing Board?

Mr. Coleman: I object to that because it appears already by the best evidence that it was by a man named Thomas Cooty.

Mr. Gaffney: I beg your pardon. I take exception to that. The applicant is stated in the first line, the name of the applicant.

Mr. Coleman: Then it appears by the application that it is unnecessary and improper for a witness to try to prove it orally, so I object on the same ground.

[fol. 104] Mr. Gaffney: He has already so testified, in any event, that the application was made by the Spector Motor Service, Incorporated.

Mr. Coleman: I pursue my objection.

The Court: It may be excluded.

By Mr. Gaffney:

Q. To whom were these tires issued, Mr. Rau?

A. Spector Motor Company?

Q. Was the Spector Motor Company the applicant—

Mr. Coleman: I object on the same ground. The same question and same ground.

By Mr. Gaffney:

Q. Let me rephrase it, Mr. Rau. Were the tires then issued to the applicant?

A. Yes, sir.

Mr. Coleman: I object to that, your Honor, because that is a conclusion, and ask that the answer go out.

The Court: It may be excluded.

By Mr. Gaffney:

Q. But you have testified that the tires were issued to the Spector Motor Service, Incorporated?

A. Yes, sir.

Mr. Gaffney: Now, your Honor, I offer those as exhibits.

The Court: They may be admitted.

Mr. Gaffney: That is all.

The Court: They may be marked.

Mr. Gaffney: That is all the evidence I was prepared to submit at this hearing, your Honor.

Mr. Coleman: And we have no evidence, your Honor.

The Court: Since the Plaintiff's Exhibits are numbered these may be marked Defendant's Exhibits A and B.

(Defendant's Exhibit A: Application to Rationing Board, dated October 8, 1942.)

(Defendant's Exhibit B: Application to Rationing Board, dated October 8, 1942.)

(Hearing closed at 11:53 A. M.)

[fol. 105]. Reporter's certificate to foregoing transcript omitted in printing.

[fol. 106] IN UNITED STATES DISTRICT COURT, DISTRICT OF
CONNECTICUT

Civil No. 723

SPECTOR MOTOR SERVICE, INC.

v.

CHARLES J. McLAUGHLIN, Tax Commissioner,
WALTER W. WALSH, Substituted, Defendant

MEMORANDUM OF DECISION

Plaintiff, a Missouri corporation, has its principal office in Illinois. It is engaged in motor transport of goods between points in the Midwest and points in the Northeast. It pioneered in two-way hauls, establishing terminals in each zone for bringing together, sorting, loading, and unloading and distributing freight handled in the long-haul trips. The terminals are of two types, leased terminals used solely by plaintiff, and agency terminals where the plaintiff has the use of terminal facilities or some other carrier.

The plaintiff, at the request of one of its Connecticut lessees, registered as a foreign corporation in the state of Connecticut and paid the minimum license fee. It maintains terminals (leased) at Bridgeport and New Britain, with office furniture owned by it, and some five pick-up trucks held by it under conditional bill of sale, registered and used solely in Connecticut. It maintains staffs to handle freight

at both terminals, as well as to handle local bookkeeping. A sales staff is maintained and paid at the New Britain office. The usual method of payment of salaries and bills at the Connecticut offices is by draft on the corporation at Chicago. Some cash is kept at New Britain for the payment of incidental bills. From one-third to one-half of the dollar volume of the plaintiff's business originates in Connecticut. [fol. 107] The plaintiff does not engage in any hauls which both originate and terminate in Connecticut or in any other single state. All its long-haul trucks are leased by it from a corporate affiliate, Wallace Transport Company, an Illinois corporation, which owns most of the trucks and obtains some others by lease from individual owner operators.

The State Tax Commissioner, on this state of facts, has determined that plaintiff is subject to the Corporation Business Tax Act of 1935, as amended, as a corporation carrying on business in this state. He has determined that the income of the plaintiff is derived from the manufacture, sale, or use of tangible personal or real property, and that, therefore, the allocation fraction of Sec. 420 e(3) (b), 1935 Supp. to G. S., (Sec. 356 e(3) (b), 1939 Supp. to G. S.) should be applied to determine what portion of the net income of the corporation is attributable to business within the state.

The tax is stated in the Act to be a tax or excise upon the franchise of a corporation for the privilege of carrying on or doing business within the state, measured by the entire net income, as therein defined, received by such corporation from business transacted within the state.

Forty percent of the cost of purchased transportation has been ruled by the Commissioner to be "rent" and not deductible in determining net income under the Act.

The total assessment laid against the plaintiff for the period from June 1, 1937 to December 31, 1940 aggregated \$7,795.50 as of January 7, 1942.

Plaintiff seeks to enjoin defendant from proceeding against the plaintiff under the Tax Act, and also seeks an adjudication as to the liability of the plaintiff under the Act, claiming (1) that the assessments are illegal and void as a burden to and direct tax upon interstate commerce in violation of Article I, Section 8, of the Constitution of the United States, and Section 1 of the 14th Amendment; (2) that they are unfair and discriminatory in violation of these sections and of Sections 1 and 12, Article I of the Connecticut [fol. 108] Constitution in that there is discrimination in

assessments between plaintiff and others in the same business; (3) that there is an unconstitutional delegation of power to the defendant in violation of Article II, Constitution of Connecticut, and Amendment 14, Section 1, Constitution of the United States; (4) that the assessments are not authorized by the statute; and (5) that the assessments are based on inaccurate computations.

It is agreed that no plain, speedy and efficient remedy may be had in the state courts either by appeal, *Lathrop v. Norwich* (1930) 111 Conn. 616, or by injunction, *Waterbury Savings Bank v. Lawler*, (1878) 46 Conn. 243.

Since no interlocutory injunction is sought, the case is properly before this court rather than the three-judge court established under Section 266 of the Judicial Code (28 U.S.C.A. 380). *Smith v. Wilson* (1926) 273 U. S. 388.

The case being properly before this court, the court has jurisdiction to determine all the questions of the case, local as well as federal. *R. R. Commission of California v. Pacific Gas and Electric Company* (1938) 302 U. S. 388.

In leasing its terminals in Connecticut, operating owned and leased pick-up trucks, maintaining local office and terminal staffs as well as representatives to maintain contact with Connecticut shippers, plaintiff is carrying on business in its corporate capacity within the state of Connecticut. Yet all its business is interstate commerce.

Does the statute apply to a corporation so situated, and if so, is it constitutional?

The statute is open to two possible interpretations. If the "tax or excise upon its franchise for the privilege of carrying on or doing business within the state" levied by the Act upon "every other corporation or association carrying on or having the right to carry on business in this state" extends only to those corporations or associations engaged in or having the right to engage in intrastate commerce, as the plaintiff contends, the plaintiff is not included [fol. 109] in its terms and no federal constitutional question arises under the commerce clause.

If, however, the provisions of the statute extend to corporations or associations engaged solely in interstate commerce, the Act may apply to the plaintiff, and the state's power to apply it must be tested under the commerce clause.

Of two possible interpretations, that which sustains the constitutionality of the statute must be adopted in prefer-

ence to that which would require that the statute be declared unconstitutional. *Anniston Mfg. Co. v. Davis* (1937) 301 U. S. 337. *Federal Trade Commission v. American Tobacco Co.* (1924) 264 U. S. 298, 307. *Panama R. R. Co. v. Johnson* (1924) 264 U. S. 375, 390. *Blodgett v. Holden* (1927) 275 U. S. 142, 148. *Camp v. Rogers* (1877) 44 Conn. 291. *Ferguson v. Stamford* (1891) 60 Conn. 432.

The constitutionality of the statute under the state's interpretation of its meaning becomes material, therefore, in arriving at a decision on the intent of the legislature in its enactment.

The first ground of alleged unconstitutionality is that the tax is a burden on interstate commerce. The question raised under the facts of this case is whether the state, in return for the protection given by it to a corporation carrying on its activities in large part in the state, may, in spite of the commerce clause, require that corporation to pay a tax based on that part of its corporate net income derived from its activities within the state, even though all of its activities in the state are carried on in interstate commerce.

If a corporation is engaged in both interstate and intrastate commerce, the state may levy a tax for the privilege of carrying on business in the state, on a base which takes into consideration net income from both types of business carried on within the state. *U. S. Glue Co. v. Oak Creek* (1918) 247 U. S. 321. *Western Live Stock v. Bureau* (1937) 303 U. S. 250. *Underwood v. Chamberlain* (1920) 254 U. S. 113.

It is settled that a State may not directly burden interstate commerce, either by taxation or otherwise. But a tax that only indirectly affects the profits or returns from such commerce is not within the rule. *U. S. Glue Co. v. Oak Creek* supra at 326.

The tax here involved is not a tax on gross income, but is based on net earnings, and is, therefore, not within the prohibition of *Crew Levick Co. v. Pa.* (1917) 245 U. S. 292, if some intrastate business is transacted by the taxpayer.

Nor is it discriminatory, since it applies alike to corporations on the same business, whether domestic or foreign.

There is a serious question as to the fairness of the method used in allocating forty percent of the cost of purchased transportation as "rent" within the meaning of the statute, since the evidence is insufficient to determine accurately whether this was a fair approximation of the payments by

this corporation properly allocable to this item. However, since the assessment of the tax must be held invalid on other grounds, this question need not be considered further here.

The inclusion of amounts properly classified as "rent" in the tax base as part of net income under the definition of the statute would not, in itself, be improper, since the state is not bound to accept the definition of net income used by the federal tax laws.

It may well be that net earnings applicable to all capital used in the business, whether the capital is contributed by lienholders, lessors, or shareholders, is a sounder basis for state taxation, both from the taxpayer's standpoint because a better measure of the value of the governmental services of the state to the taxpayer, and from the state revenue standpoint because less liable to violent fluctuation, than is the federal net income base. See *Report of the Connecticut Temporary Tax Commission* (1934) 455 ff. This is a matter of state legislative policy, and should not be interfered with unless there is an actual burden on interstate commerce.

If any part of plaintiff's business were intrastate commerce carried on in Connecticut, the tax might properly be [fol. 111] applied to it. However, there must be some intrastate business on which to base this tax, or its application to the plaintiff will be in violation of the commerce clause, as a regulation by the state of interstate commerce. *Cooney v. Mountain States Tel. Co.* (1935) 294 U. S. 384, 392, 393. *Matson Navigation Co. v. State Board* (1935) 297 U. S. 441. *Anglo-Chilean Nitrate Corp. v. Alabama* (1933) 288 U. S. 218. Here there is no intrastate business.

Nor would the plaintiff's voluntary acquisition of full corporate privileges to do intrastate business furnish a basis for the tax. (*Anglo-Chilean Nitrate Corp. v. Alabama* supra. (Justices Cardozo, Brandeis, and Stone dissenting.))

The cases cited establish the rule that any state tax upon the privilege of doing business within a state, if the business done is solely in interstate commerce, is a burden on that commerce and, therefore, invalid.

Strong reasons of policy may be advanced for the state's position, that all business within the state, whether within or without the protection of the commerce clause, should be made to bear its fair share of the cost of running the state's

governmental institutions by a tax measured in some way by the benefits derived, without discrimination between local and out-of-state corporations, or between intrastate and interstate business. See the dissenting opinion of Mr. Justice Black in *Gwin v. Heneford* (1938) 305 U. S. 442 ff.

However, until the present interpretation of the commerce clause, prohibiting taxation by the states of the privilege of doing business solely in interstate commerce, is changed by modification of the rule by the Supreme Court, or by establishment of uniform methods of taxation of interstate commerce by the Congress, under the powers granted to it by the commerce clause, the present tax act must be held invalid if construed to apply to the plaintiff.

It must, therefore, be held that the "tax or excise upon its franchise for the privilege of carrying on or doing business within the State" levied by the Act upon "every other corporation or association carrying on, or having the right to carry on, business in this State" means a tax upon the exercise of a franchise to carry on intrastate commerce in the state, and does not apply to foreign corporations or associations, which, during the taxable year, did not carry on, and had no right to exercise the privilege of carrying on or doing, intrastate business in the state.

Whether plaintiff might have been subject to the tax, after the amendment of 1937, adding the words "or having the right to carry on" business if it had qualified fully to do intrastate business in Connecticut, and whether, if the Act were interpreted as so providing, it would be valid under the *Anglo-Chilean* case, need not here be decided.

Under its Missouri franchise, filed with the Secretary of the State of Connecticut, plaintiff could do business only as a common carrier. By filing in Connecticut as a foreign corporation, it fulfilled one part of the requirements for carrying on its business within the state in intrastate commerce. Not having qualified with the Public Utilities Commission of Connecticut to operate as an intrastate carrier, however, it had not fully qualified to carry on its business in Connecticut, and had no right to engage in intrastate business in the state. Therefore, the statute does not apply to it, and the assessments are not authorized by the statute.

Judgment may be entered declaring that the plaintiff is not subject to the tax for the years in question, and enjoin-

ing defendant from attempting to collect from the plaintiff the tax for those years.

A decree may be submitted on three days' notice unless its form can be agreed on.

J. Joseph Smith, United States District Judge.

[fol. 113] IN UNITED STATES DISTRICT COURT

[Title omitted]

Findings of Fact and Conclusions of Law

FINDINGS OF FACT

(1) The plaintiff is a corporation incorporated under the laws of the State of Missouri, and has its principal office at Chicago in the State of Illinois. At all times mentioned herein, it has been, and is engaged in the carriage of freight by motor trucks which it leases from others.

(2) Defendant Walsh is a citizen of the State of Connecticut and a resident in said state, and is the Tax Commissioner of the State of Connecticut, having been appointed and duly qualified following the resignation from said office of the defendant McLaughlin.

(3) The matter in controversy exceeds, exclusive of interest and costs, the sum of \$3000.

(4) Under the laws of Connecticut, the plaintiff is appealing from the tax assessment referred to herein; is precluded from attacking in the state courts the constitutionality of the statute, because the statute which imposes the tax also provides for the appeal, and likewise is precluded from availing itself, in the state courts, of any other remedy provided by said statute under the law of Connecticut. The plaintiff is precluded from enjoining, in the state courts, the collection of said tax assessment.

(5) The said statute also provides for severe pains and [fol. 114] penalties for the non-payment of said assessment and for the failure to file returns. The plaintiff has neither paid the tax nor filed the returns for the years 1936-1940. The defendant's predecessor in office has already made demand for an additional 25% of the total taxes for those

years as computed by him as a penalty, together with interest, or a total penalty of \$1672.73, as of January 7, 1942, and defendant threatens to place a lien on such of plaintiff's property as may be found in Connecticut, which lien will result in a substantial impairment of the plaintiff's interest business. In addition, the said taxing statute provides that failure to file a return with the defendant for two consecutive years shall cause a forfeiture of the plaintiff's corporate rights and powers.

(6) The plaintiff maintains an office and terminal at New Britain in the state of Connecticut, and a terminal at Bridgeport in said state, both of which are leased by it. The plaintiff utilizes, at these places of business in the state of Connecticut, office furniture and equipment, and freight handling equipment owned by it, as well as approximately five trucks used by it to pick up and deliver freight in the course of its business. The plaintiff has obtained one or more tires for these trucks through certificate issued by the ration board at New Britain, Connecticut. The plaintiff employs office personnel, sales representatives, and freight handlers, working in or from the office and terminals in the state of Connecticut. Plaintiff picks up and delivers freight within the state of Connecticut and utilizes its terminals for the purpose of sorting freight, loading and reloading it for forwarding and delivery.

(7) During the tax years in question, from approximately one-third to approximately one-half of the dollar volume of plaintiff's business originated within the state of Connecticut.

(8) During the years in question, plaintiff operated only over routes approved by the Interstate Commerce Commission, of which from 3% to 10% of plaintiff's route mileage was within the state of Connecticut.

[fol. 115] (9) During the years in question, plaintiff carried freight only from points within one state to points within another state, and carried no freight from a point within Connecticut to another point within the same state, for final delivery.

(10) During the years in question, plaintiff's employees, working in or from offices within the state of Connecticut, were employed solely in connection with the movement of

freight from points within one state to points within another state, and during this period the terminals leased by the plaintiff, and the trucks and other equipment owned or leased by the plaintiff, were used solely in connection with the carriage of freight during the course of its transportation from a point within one state to a point within another state.

(11) At the request of one of its lessors, plaintiff filed with the Secretary of the State of Connecticut on June 11, 1934, a copy of its certificate of incorporation and a certificate of appointment of the Secretary of the State of Connecticut as its attorney for the service of process within the state of Connecticut, pursuant to Section 3488, Revised Statutes of Connecticut, Revision of 1930, and paid a fee in the amount of \$50 in that year and in each succeeding year.

(12) The plaintiff is not, and has not been, authorized or qualified to carry on an intrastate motor carrier business within the state of Connecticut, but has been, and is, authorized by the Interstate Commerce Commission and by the Public Utilities Commission of the State of Connecticut, to carry on an exclusively interstate motor carrier business in or through the state of Connecticut.

(13) Section 418c of the 1935 Cumulative Supplement to the General Statutes of Connecticut, which became law on July 1, 1935, imposed on every corporation "carrying on business in this state" (with certain exceptions not here material) "a tax or excise upon its franchise for the privilege of carrying on or doing business within the state".

(14) Purporting to act under said statute, the defendant's predecessor in office assessed the plaintiff the sum of \$618.36 as the tax due from the plaintiff for the year ending May 31, 1936, and the sum of \$937.98, as the tax due from the plaintiff for the year ending May 31, 1937.

(15) Section 354e of the 1939 Supplement to the General Statutes of Connecticut, which became law on July 1, 1937, imposed on every corporation "carrying on or having the right to carry on business in this state" (with certain exceptions not here material) "a tax or excise upon its franchise for the privilege of carrying on or doing business within the state".

(16) Purporting to act under said statute, the defendant's predecessor in office assessed the plaintiff the sum of \$1113.56 as the tax due from the plaintiff for the year ending May 31, 1938, and the sum of \$698.94 as the tax due for the six months' period ending December 31, 1938, and the sum of \$1407.85 as the tax due for the year ending December 31, 1939, and the sum of \$1346.08 as the tax due for the year ending December 31, 1940.

(17) With penalties and interest demanded, the assessments heretofore described aggregate \$7795.50 as of January 7, 1942.

(18) Defendant's predecessor in office based the assessments on the net earnings of the plaintiff, in accordance with the formula contained in the statute, Section 420c (3) (b) 1935 Supp. to G. S., and Section 356e (3) (b) 1939 Supp. to G. S.

(19) In computing net earnings under said statute, defendant's predecessor in office disallowed as a deduction from gross income amounts considered by him as payments for rent of equipment, amounting to 40% of the cost of purchased transportation.

(20) No analysis of the experience of the plaintiff was made or attempted before the assessment to establish from the books of the plaintiff or of its lessors, the proportion of the cost of purchased transportation actually paid by the plaintiff as rent of the equipment used by it.

[fol. 117] (21) 40% of the cost of purchased transportation is a fair average cost of the rent of equipment by a carrier engaged in motor transportation of freight as determined by defendant's predecessor in office from an analysis of the books of a number of persons engaged in such motor transport business. The operations of these persons are not fairly comparable in the proportion of cost of rental of equipment with the operations of the plaintiff.

CONCLUSIONS OF LAW

(1) Plaintiff, during the years 1936 to the present, was and is engaged within the state of Connecticut solely in interstate commerce.

(2) Plaintiff, during the years 1936 to the present, was not and is not engaged within the state of Connecticut in intrastate commerce.

(3) Plaintiff, during the years 1936 to the present, did not and does not have the right to carry on business in intrastate commerce within the state of Connecticut.

(4) Plaintiff is not subject to the Connecticut Corporation Business Tax Act of 1935 as amended.

(5) Defendant's predecessor in office erroneously assessed corporation taxes against the plaintiff under the aforesaid corporation business tax act.

(6) Plaintiff has no adequate remedy under the laws of the State of Connecticut.

(7) This court has jurisdiction over the action and over the parties to the action.

(8) Plaintiff is entitled to a judgment declaring that the tax act in question does not apply to it during the years 1936 to the present.

(9) Plaintiff is entitled to a decree enjoining defendant from assessment and collection of the aforesaid tax.

— J. Joseph Smith, United States District Judge.

[fol. 118] IN UNITED STATES DISTRICT COURT, DISTRICT OF
CONNECTICUT

Civil Action. File No. 723

SPECTOR MOTOR SERVICE, INC.

v.

CHARLES J. McLAUGHLIN, Tax Commissioner; WALTER W.
WALSH, Substituted Defendant

JUDGMENT

This cause came on to be heard on June 16, 1942, and June 17, 1942, and was further heard on November 6, 1942, and was submitted to the Court on written briefs by counsel and thereupon, upon consideration thereof, it was ordered, adjudged and decreed as follows, viz: .

1. That the defendant and his agents and subordinates are hereby enjoined from enforcing or collecting assessments levied upon the plaintiff by the defendant or his predecessors in office under the Corporation Business Tax Act, as amended, for the tax year ending May 31, 1938, for the

six months' period ending December 31, 1938, and for the tax years ending December 31, 1939 and December 31, 1940.

2. That the defendant and his agents and subordinates are hereby enjoined from proceeding in any manner against the plaintiff for failure to pay said assessments and the penalties accruing thereunder, and for failure to file tax returns under said Corporation Business Tax Act, as amended.

3. That the plaintiff is not subject to the tax provisions of the said Corporation Business Tax Act, as amended, for the tax year ending May 31, 1938, for the six months' period [fol. 119] ending December 31, 1938, and for the tax years ending December 31, 1939 and December 31, 1940.

J. Joseph Smith, United States District Judge.

Dated at Hartford, Connecticut, This 19th day of December, 1942.

[fol. 120] IN UNITED STATES DISTRICT COURT

[Title omitted]

NOTICE OF APPEAL TO THE CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT UNDER RULE 73 OF THE RULES OF CIVIL PROCEDURE FOR THE DISTRICT COURTS OF THE UNITED STATES

Notice Is Hereby Given that Walter W. Walsh, Tax Commissioner of the State of Connecticut, substituted Defendant for the named Defendant, Charles J. McLaughlin, Tax Commissioner, hereby appeals to the Circuit Court of Appeals for the Second Circuit from the final judgment for the plaintiff and against the defendant, entered in this action on December 19, 1942, and from each and every part thereof.

Dated Jan. 29, 1943.

Walter W. Walsh, Tax Commissioner of the State of Connecticut, by Francis A. Pallotti, Attorney General; Leo V. Gaffney, Assistant Attorney General.

To Clerk of the United States District Court for the District of Connecticut, New Haven, Connecticut.

[fol. 121] IN UNITED STATES DISTRICT COURT

[Title omitted]

DESIGNATION OF CONTENTS OF RECORD ON APPEAL PURSUANT
TO RULE 75 OF THE RULES OF CIVIL PROCEDURE FOR THE DIS-
TRICT COURTS OF THE UNITED STATES

Notice Is Hereby Given pursuant to Rule 75 of the Rules of Civil Procedure for the District Courts of the United States, that Walter W. Walsh, Tax Commissioner of the State of Connecticut, substituted defendant for the named defendant, Charles J. McLaughlin, Tax Commissioner, designates the following to be contained in the Record on Appeal:

1. Summons.
 2. All of the pleadings, including the complaint, the answer, the amendment to the complaint, the motion to substitute party defendant, the order substituting the party defendant and the application for permission to submit additional evidence.
 3. All of the evidence, including all of the testimony and all of the exhibits which were placed in evidence.
 4. The Court's opinion.
 5. The Court's findings of facts.
 6. Judgment.
- [fol. 122] 7. Notice of appeal.
8. This designation.

Francis A. Pallotti, Attorney General. Leo V. Gaffney, Assistant Attorney General.

Dated: February 5, 1943.

[fol. 123] IN UNITED STATES DISTRICT COURT

[Title omitted]

STIPULATION FOR WITHDRAWAL AND TRANSMISSION TO CIRCUIT
COURT OF APPEALS OF CERTAIN EXHIBITS

To Honorable J. Joseph Smith, United States District Judge for the District of Connecticut:

Now comes Walter W. Walsh, Tax Commissioner of the State of Connecticut, substituted defendant for the named defendant, Charles J. McLaughlin, Tax Commissioner, the

appellant herein, appearing by Francis A. Pallotti, Attorney General for the State of Connecticut, and respectfully prays that the Clerk of the United States District Court for the District of Connecticut be authorized to withdraw from the file in this Court, and transmit to the Circuit Court of Appeals for the Second Circuit, the following exhibits:

Plaintiff's Exhibits 1 to 19 inclusive.

Defendant's Exhibits A and B.

Dated at Hartford, Connecticut, this 5th day of February, 1943.

[fol. 124] Consented to: C. W. Coleman, Day, Berry & Howard, Attorneys for Plaintiffs-Appellees.

So Ordered: New Haven, Conn., February 5, 1943. J. Joseph Smith, United States District Judge.

Defendant-Appellant By Francis A. Pallotti, Attorney General; Leo V. Gaffney, Assistant Attorney General.

[fol. 125] IN UNITED STATES DISTRICT COURT

[Title omitted]

STIPULATION AS TO RECORD

It is hereby stipulated and agreed that the foregoing is a true transcript of the record of the said District Court in the above-entitled matter as agreed upon by the parties.

Dated, Hartford, Connecticut, February 8, 1943.

Francis A. Pallotti, Attorney General; Leo V. Gaffney, Assistant Attorney General, Attorney for Defendant-Appellant; Day, Berry & Howard, Attorneys for Plaintiff-Appellees.

[fol. 126] IN UNITED STATES DISTRICT COURT

[Title omitted]

PETITION FOR AND ORDER EXTENDING TIME FOR DOCKETING.
RECORD TO APRIL 30, 1943

Now comes the appellant herein by Leo V. Gaffney, Assistant Attorney General for the State of Connecticut, and respectfully prays that the appellant be given and have un-

til April 30, 1943 for docketing the record in the above mentioned case in the United States Circuit Court of Appeals for the Second Circuit. The extension is requested because of the necessity for further time for printing of the record and briefs.

Dated at Hartford, Connecticut, this 19th day of February, 1943.

Appellant, By Francis A. Falloffi, Attorney General.
Leo V. Gaffney, Assistant Attorney General.

[fol. 127]

ORDER

The aforesaid Petition is hereby granted and the Appellant may have until April 30, 1943 for the docketing of the record in this case in the United States Circuit Court of Appeals for the Second Circuit.

Dated at Hartford, Connecticut, this 19th day of February, 1943.

J. Joseph Smith, United States District Court Judge.

Filed with me, under Rule 5(e), Federal Rules of Civil Procedure, this 19th day of February, 1943, at 3:45 P. M.

J. Joseph Smith, District Judge.

[fol. 128] Clerk's Certificate to foregoing transcript omitted in printing.

[fol. 129] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR
THE SECOND CIRCUIT, OCTOBER TERM, 1943

No. 34

(Argued November 1, 1943. Decided December 24, 1943)

SPECTOR MOTOR SERVICE, INC., Plaintiff-Appellee,

v.

WALTER W. WALSH, Tax Commissioner, Defendant-
Appellant

Before: L. Hand, Clark and Frank, Circuit Judges

Appeal from the District Court of the United States for the
District of Connecticut

Action by Spector Motor Service, Incorporated, against Charles J. McLaughlin, for whom Walter W. Walsh has been substituted as successor, Tax Commissioner of the State of Connecticut, for an injunction and a declaratory judgment of its nonliability for the Connecticut Corporation Business Tax. From a judgment granting the injunction and the declaration prayed for, 47 F. Supp. 671, the defendant appeals. Reversed for judgment for defendant on the merits.

[fol. 130] Leo V. Gaffney, Asst. Atty. Gen., State of Connecticut, of Hartford, Conn. (Francis A. Pallotti, Atty. Gen., State of Connecticut, of Hartford, Conn., on the Brief), for Defendant-appellant; Cyril Coleman, of Hartford, Conn. (Israel Nair and Nair & Nair, all of New Britain, Conn., and Day, Berry & Howard, of Hartford, Conn., on the brief), for plaintiff-appellee.

OPINION

CLARK, Circuit Judge:

This appeal by the Connecticut State Tax Commissioner brings up for consideration the validity of the Connecticut Corporation Business Tax of 1935, Conn. Gen. Stat., Cum. Supp. 1935, §41Sc, assessed against the plaintiff, a Missouri

corporation having its principal place of business in Chicago, Illinois, and engaged in the interstate trucking of freight. The district court held that the statute, construed to avoid an unconstitutional burdening of interstate commerce, did not justify the tax assessed by the commissioner against the plaintiff for the period from June 1, 1937, to December 31, 1940, upon what he had found to be business done within the state. It, therefore, granted the plaintiff's prayer for an injunction against the assessment and collection of the tax and for an adjudication of its nonliability for the tax. D. C. Conn., 47 F. Supp. 671, 676. Jurisdiction was rested upon the constitutional issues and the diverse citizenship of the parties, the court holding inapplicable the prohibition of 28 U. S. C. A. §41(1), as amended in 1937, against federal injunction of state tax proceedings, because it found no plain, speedy, and efficient remedy in the state courts. Notwithstanding the fact that the parties were in agreement with the court on this point, we have found it not free of doubt. Since, however, we have concluded that [fol. 131] jurisdiction does exist, we shall postpone our discussion as to it until later, and turn at once to the very interesting question of the extent to which an interstate trucking business can be subjected to a state corporate franchise tax based fundamentally on net income allocated and attributed to the business done within the state.

Plaintiff pioneered in the development of the "two-way haul" of goods between St. Louis, Missouri, and New York City, that is, the system whereby trucks which have come East with freight are supplied with another load for the return trip after a minimum holdover at the terminals. As developed, this involved the collection of freight in less than truckload amounts at certain eastern terminals, where it was sorted and the loads consolidated and placed in the returning trucks. Hence in 1934 and in 1935, plaintiff leased terminals for its exclusive use in Chicago, Illinois, and New Britain, Connecticut; in addition to those already in existence in St. Louis, Missouri, and New York City; and later it leased another in Bridgeport, Connecticut. It has also acquired agency terminals, where it has the use of terminal facilities of some other carrier, in certain cities in Massa-

chusetts, Rhode Island, and New Jersey. Plaintiff utilizes about 150 trucks for its interstate hauling, almost all of these being leased from its corporate affiliate, the Wallace Transport Company of Illinois. For shipments less than truckloads these trucks are loaded and unloaded at the terminals, to or from which the goods are brought or delivered by separate pickup or cartage trucks, some leased from local truckers and some owned by plaintiff. Thus, at the New Britain terminal plaintiff has five such pickup trucks, all owned by it on conditional bills of sale.

At the New Britain terminal plaintiff has 17 employees, and at the Bridgeport terminal 10, including loading, accounting, and sales personnel. Bills, as well as wages of employees, are usually paid by draft on plaintiff at Chicago, although some cash is kept in New Britain for incidental expenses. Plaintiff has a bank account in Bridgeport for collections made by its drivers, but no Connecticut employee is authorized to disburse this money. That is left entirely in the control of plaintiff's main administrative offices in Chicago, which handle all matters relating to rating and billing. Plaintiff has no real estate in Connecticut; its total physical assets there—outside of the pickup trucks—amount to only some \$1,500 or \$2,000 of office equipment in the two terminals. Between one-third to one-half of the dollar volume of plaintiff's business, however, originates in Connecticut.

When plaintiff negotiated for the lease of the New Britain terminal, the lessor, as a precaution in case of future litigation regarding the lease, required the company to qualify as a foreign corporation doing business in the state and to designate the Secretary of State as its agent for service of process. Plaintiff then paid the annual statutory fee of \$50 and has since maintained its qualification, paying this yearly fee. It has not applied for or received the certificate of public convenience and necessity from the Connecticut Public Utilities Commission which is a prerequisite for the doing of local business as a motor common carrier. Conn. Gen. Stat., Cum. Supp. 1935, §577c, amended by Supp. 1939, §499c. Moreover, its permit from the Interstate Commerce Commission—granted under the so-called "grandfather clause" of §206(a) of the Interstate Commerce Act—limits its traffic, except for lines from St. Louis to Chicago and to Quincy, Illinois, to interzone hauling between the West and

the East. See *In re Spector Motor Service, Inc., Common Carrier Application*, 32 M. C. C. 443. Hence, although a very substantial part of its business originates within the [fol. 133] state, that business must go into interstate commerce and plaintiff has not engaged in purely intrastate business.

The Connecticut Corporation Business Tax Act of 1935, passed as a result of the recommendations of the Connecticut Temporary Tax Commission, Rep. 1934, 455 *et seq.*, imposes upon every corporation "carrying on business in this state" which has to file a report for federal income tax purposes, with certain exceptions not here material, "annually, a tax or excise upon its franchise for the privilege of carrying on or doing business within the state, such tax to be measured by the entire net income as herein defined received by such corporation or association from business transacted within the state during the income year and to be assessed at the rate of two per cent," Cum. Supp. 1935, §418c, with a further provision for a minimum tax, more specifically defined in §§421c and 422c. By §419c, net income is gross income less the deductions under the federal corporation net income tax, with certain exceptions which include "interest and rent paid during the income year."

There follow special and ingenious provisions as to allocation of net income in the case of business carried on partly without the state. Sec. 420c (amended by Supp. 1939, §356c, Supp. 1941, §177f, and Supp. 1943, §292g) states: "If the trade or business of the taxpayer shall be carried on partly

Effective July 1, 1937, the legislature amended §418c to apply to every corporation not merely carrying on, but also "having the right to carry on," business in this state. Conn. Gen. Stat., Supp. 1939, §354e.

"Except (1) federal taxes on income or profits, losses of prior years, interest received from federal, state and local government securities and specific exemptions, if any such deductions shall be allowed by the federal government and (2) interest and rent paid during the income year." §419c. Net income is defined in §417c as "net earnings received during the income year and available for contributors of capital, whether they be creditors or stockholders, computed by subtracting from gross income the deductions allowed by the terms of section 419c."

[fol. 134] without the state, the business tax shall be imposed on a base which reasonably represents the proportion of the trade or business carried on within the state." Provision is then made for the allocation of certain specific receipts—interest, dividends, royalties, and gains on sales of assets—to the state of the principal place of business unless they can be "clearly established" as coming from local business or are sales or rentals of tangible property within the state—and the remainder of net income is to be allocated under rules and regulations of the commissioner, except in the case of income "derived from the manufacture, sale or use of tangible personal or real property." In the latter case the local income is found by use of an allocation fraction which is the mean or average of three ratios: (1) the ratio of tangible property in the state to all tangible property, (2) the ratio of wages and salaries paid within the state to all wages and salaries, and (3) the ratio of gross receipts assignable to the state to all gross receipts.¹ The commissioner computed the tax by use of this allocation fraction. Not great amounts are involved; the total tax for the 5½ years involved was \$6,122.77, upon which the commissioner also claimed a 25 per cent penalty and interest.

Sec. 421c (amended by Supp. 1939, §357e, and Supp. 1941, §78f) provides for the minimum tax which is set up as an alternative to §418c, and requires the corporation to pay, whichever is the larger, either the tax already defined in §418c or the tax here defined of one mill per dollar based substantially on outstanding securities and corporate stock [fol. 135] and reserve. Sec. 422c contains provision for the allocation of this minimum tax in the case of business carried on partly without the state, which corresponds to the plan of §420c for the main tax. Since the minimum tax is not involved here, we need refer to these provisions no further than to point out the extensive and ingenious steps

¹ Thus, for the year 1940, the commissioner found for the plaintiff's business the Connecticut tangibles to represent .071479 of the total, the salaries and wages to be .059896, and the receipts to be .341149, giving a mean, i.e., one-third of the total, of .157508. The company's total receipts were \$1,723,510.65, of which \$587,973.59 arose in Connecticut; its net for apportionment was \$426,291.01, of which \$67,304.24 was allocated to the state with a tax of \$1,346.08.

taken by the legislators in attempting to devise a fair system of allocation between business within and without the state and yet prevent a corporation from escaping what was thought to be its fair share of the tax. See *Lenox Realty Co. v. Hackett*, 122 Conn. 143, 187 A. 895, 107 A. L. R. 1306.

This objective is still further emphasized by § 423c, which provides that a company's officers, when believing that the allocation method applied to it by the commissioner has operated to subject it to a tax "on a greater portion of its business than is reasonably attributable to this state," may file with its return a statement of their objections to the tax and their own alternative method, which the commissioner then passes upon; and if the method "is in fact inapplicable and inequitable," he is to redetermine the tax base by such other method of allocation "as shall seem best calculated to assign to the state for taxation the portion of the business reasonably attributable to the state." All this is, of course, subject to the general appeal to the state superior court accorded by § 435c to "any taxpayer aggrieved," with the court empowered to grant "such relief as may be equitable," including an order for the refund of any tax paid with interest.

The district court, relying on certain precedents herein-after discussed, held that if this tax applied to a wholly interstate business it would be an undue burden thereon, contrary to Art. 1, § 8, of the United States Constitution, and hence indulged in the presumption of validity to interpret the statute as applicable only to those corporations [fol. 136] which carried on an intrastate business. This we think is to warp the meaning beyond permissible limits. The broad sweep of the language imposing the tax and the subordinate provisions for careful allocation of the tax between business within and without the state seem to us to disclose unmistakably an intent to make the tax applicable in a case such as this. Indeed, the commission which recommended the tax envisaged its application to interstate business and carefully discussed its validity in the light of that premise. Rep., Connecticut Temporary Commission to Study the Tax Laws, 1934, 455, 456, 483; and cf. *Stanley Works v. Hackett*, 122 Conn. 547, 190 A. 743. It seems to us fairer to hold, as we do, that the statute was intended to apply to the allocated local business of corporations situated as was the plaintiff and then to face directly

the main issue whether the tax is in fact an unconstitutional burden on interstate commerce.

The traditional dogma is that a state cannot tax interstate commerce, the business which constitutes such commerce, or the privilege of engaging in it. *Cooney v. Mountain States Telephone & Telegraph Co.*, 294 U. S. 384, 55 S. Ct. 477, 79 L. Ed. 934; *Matson Nav. Co. v. State Board*, 297 U. S. 441, 56 S. Ct. 553, 80 L. Ed. 791; *New Jersey Bell Telephone Co. v. State Board of Taxes*, 280 U. S. 338, 50 S. Ct. 111, 74 L. Ed. 463. And the fact that some of the business is intrastate justifies a tax only on that part and not upon either the interstate business or the whole business without discrimination. *Cooney v. Mountain States Telephone & Telegraph Co.*, *supra*. In the past years, however, many exceptions have served increasingly to limit this strict rule. As was said in *Western Live Stock v. Bureau of Bureau*, 302 U. S. 250, 254, 58 S. Ct. 546, 82 L. Ed. 823, 115 A. L. R. 944: "It was not the purpose of the commerce clause to relieve those engaged in interstate commerce from their just share of state tax burden even though it [fol. 137] increases the cost of doing business. 'Even interstate business must pay its way,' *Postal Telegraph-Cable Co. v. Richmond*, 249 U. S. 252, 259, 39 S. Ct. 265, 63 L. Ed. 590."

Hence we now find that the person who conducts an interstate business is subject to a property tax on the instruments employed in the commerce, *Western Union Tel. Co. v. Massachusetts*, 125 U. S. 530, 8 S. Ct. 961, 31 L. Ed. 790; *Adams Express Co. v. Kentucky*, 166 U. S. 171, 17 S. Ct. 527, 41 L. Ed. 960; *Old Dominion S. S. Co. v. Virginia*, 198 U. S. 299, 25 S. Ct. 686, 49 L. Ed. 1059, and if the instruments are used both within and without the state, a fairly apportioned tax is permitted. *Pullman's Palace-Car Co. v. Pennsylvania*, 141 U. S. 18, 11 S. Ct. 876, 35 L. Ed. 613; *Cudahy Packing Co. v. Minnesota*, 246 U. S. 450, 38 S. Ct. 373, 62 L. Ed. 827. And a domestic corporation is taxable on its earnings from interstate as well as intrastate commerce. *United States Glue Co. v. Town of Oak Creek*, 247 U. S. 321, 328, 38 S. Ct. 499, 62 L. Ed. 1135, Ann. Cas. 1918 E 748; *Atlantic Coast Line R. Co. v. Doughton*, 262 U. S. 413, 420, 422, 43 S. Ct. 620, 67 L. Ed. 1051; *Matson Nav. Co. v. State Board*, *supra*. Again, the assets of a foreign corporation engaged in interstate commerce have been held

taxable not only by the state in which they have acquired a business situs, *First Bank Stock Corp. v. Minnesota*, 301 U. S. 234, 57 S. Ct. 677, 81 L. Ed. 1061, 113 A. L. R. 228, but also by the state in which the corporation has a commercial domicile. *Wheeling Steel Corp. v. Fox*, 298 U. S. 193, 56 S. Ct. 773, 80 L. Ed. 1143. Finally, a franchise tax may be imposed, measured by the net income from business done within the state, including such portion of the income derived from interstate commerce as may be justly attributable to business done within the state by a fair method of apportionment. *Underwood Typewriter Co. v. Chamberlain*, 254 U. S. 113, 41 S. Ct. 45, 65 L. Ed. 165; *Bass, Ratcliff & Gretton, Ltd. v. State Tax Commission*, 266 U. S. 271, 45 S. Ct. 82, 69 L. Ed. 182; cf. *Hans Rees* [fol. 138] *Sons v. North Carolina*, 283 U. S. 123, 51 S. Ct. 385, 75 L. Ed. 879; *Butler Bros. v. McCollgan*, 315 U. S. 501, 62 S. Ct. 701, 86 L. Ed. 991. Even a tax measured by gross receipts fairly apportioned to the local commerce is no longer barred where there is not danger of duplicating taxation by other states or other inequity. *Western Live Stock v. Bureau of Revenue*, *supra*; *McGoldrick v. Berwind-White Coal Mining Co.*, 309 U. S. 33, 60 S. Ct. 388, 84 L. Ed. 565, 128 A. L. R. 876. See the scholarly articles by Professors Lockhart, *Gross Receipts Taxes on Interstate Transportation and Communication*, 57 Harv. L. Rev. 40, 83-89, and Powell, *New Light on Gross Receipts Taxes*, 53 Harv. L. Rev. 909.

When, however, a corporation is engaged within a state solely in interstate commerce, it must be conceded frankly, and this is the basis of the thoughtful conclusion of the court below, that the Supreme Court to date has held it immune from net income taxation by that state. In 1925, in *Alpha Portland Cement Co. v. Massachusetts*, 268 U. S. 203, 45 S. Ct. 477, 69 L. Ed. 916, 44 A. L. R. 1219, the Court, Mr. Justice Brandeis dissenting, held invalid a Massachusetts excise tax measured in part by net income when applied to a company doing no intrastate business, but having a considerable amount of interstate business within the state, where it maintained a large office and a sales staff. This followed *Ozark Pipe Line Corp. v. Monier*, 266 U. S. 555, 45 S. Ct. 184, 69 L. Ed. 439 (Mr. Justice Brandeis dissenting at some length) and was, in turn, followed in 1933 in *Anglo-Chilean Nitrate Sales Corp. v. Alabama*, 288 U. S.

218, 53 S. Ct. 373, 77 L. Ed. 710, where Mr. Justice Cardozo wrote the dissent for himself and Justices Brandeis and Stone. Here the Court rejected the additional argument, stressed in the dissent, that the corporations had qualified to carry on intrastate business though they had not in fact done so.

If that were the whole story or if further our duty were limited to picking the closest unoverruled analogy in reported cases and following that blindly and mechanically, we should hold that these cases, and particularly the *Alpha Cement* case, had foreclosed all further discussion. But that is far from the whole story; the trends noted above have gone further in several specific cases fundamentally close to this and in divisions in the Court itself, which are certainly not without significance in forecasting the future course of the law. And our function cannot be limited to a mere blind adherence to precedent. We must determine with the best exercise of our mental powers of which we are capable that law which in all probability will be applied to these litigants or to others similarly situated. If this means the discovering and applying of a "new doctrinal trend" in the Court, *Perkins v. Endicott Johnson Corp.*, 2 Cir., 128 F. 2d 208, 217-218, affirmed 317 U. S. 504, 63 S. Ct. 339, 87 L. Ed. —, this is our task to be performed directly, and straightforwardly, rather than "artfully" dodged. *The Attitude of Lower Courts to Changing Precedents*, 50 Yale L. J. 1448, 1459. As was said recently with rare prescience by Judge Parker in the controversial issue as to the constitutionality of the required flag salute: "Under such circumstances and believing, as we do, that the flag salute here required is violative of religious liberty when required of persons holding the religious views of plaintiffs, we feel that we would be recreant to our duty as judges, if through a blind following of a decision which the Supreme Court itself has thus impaired as an authority, we should deny protection to rights which we regard as among the most sacred of those protected by constitutional guarantees." *Barnette v. West Virginia State Board of Education*, D. C. S. D. W. Va., 47 F. Supp. 251, 253, affirmed 319 U. S. 624, 63 S. Ct. 1178, 87 L. Ed. —. We must then decide how far we think, at this point of time, the *Alpha Cement* decision controls this case.

In addition to the general course of decisions on state [fol. 140] taxes, we shall examine certain specific trends disclosed by the Court and more directly applicable to the present issue. In so doing we must bear in mind at all times that the emphasis of the present Court in tax problems is on practical considerations. The trend is away from the automatic condemnation of taxes by formal, preconceived, and antiquated rules. As was said in *Wisconsin v. J. C. Penney Co.*, 311 U. S. 435, 445, 61 S. Ct. 246, 85 L. Ed. 267, 130 A. L. R. 1229: "We must be on guard against imprisoning the taxing power of the states within formulas that are not compelled by the Constitution but merely represent judicial generalizations exceeding the concrete circumstances which they profess to summarize."

First, we should note the now established and undenied power of a state to impose a registration or license fee on those using motor vehicles in the state, although engaged in interstate commerce, or to impose a reasonable charge for the use of its highways by motor vehicles so employed. *Hendrick v. Maryland*, 235 U. S. 610, 35 S. Ct. 149, 59 L. Ed. 385; *Kane v. New Jersey*, 242 U. S. 160, 37 S. Ct. 30, 61 L. Ed. 222; *Clark v. Poor*, 274 U. S. 554, 47 S. Ct. 702, 71 L. Ed. 1199; *Interstate Busses Corp. v. Blodgett*, 276 U. S. 245, 48 S. Ct. 230, 72 L. Ed. 551. The Connecticut tax involved in the last case of one cent per each mile travelled within the state by an interstate carrier was sharply attacked for discrimination, as local corporations paid no such tax, being liable instead for an excise tax on their gross receipts and a general state income tax. The Court held, however, that these two sets of taxes were complementary and that there was no discrimination.

If a highway tax based on the difficult and uncertain formula of mileage within the state is to be sustained, it is clear that similar taxes, based on other formulas which are less arbitrary than that of mileage, must be equally valid. The formula used in the case at bar, for example, [fol. 141] would be a fairer means of measuring the tax owed by a foreign corporation. It would seem, therefore, that constitutionality would be ensured for the present tax as applied to interstate trucking if the legislature clearly showed that it was intended to provide funds for the benefit and upkeep of the highways. Realizing this, it would be myopic of us to ignore practicality and demand that

the legislature actually make this verbalization, without meaning to the taxpayer, to validate the measure. Of course, the Connecticut legislature could easily and properly make the statement, for it appears that in normal times from 33 to 47 per cent of the state's revenues went into the highway fund. Rep., Connecticut Temporary Commission to Study the Tax Laws, 1934, 29-56; Rep., Connecticut Commission Concerning the Reorganization of the State Departments, 1937, 149, 150. Hence, even as the tax now stands, we can expect one-third to nearly one-half the receipts to be used for the highways.

Next, we note that the present attitude of the Supreme Court to interfere only most reluctantly with a legislative scheme for apportioning income to business within and without the state, *Butler Bros. v. McGowan*, *supra*, leaves the distinction between a permissible and an assertedly unpermissible allocation under the *Alpha Cement* case a barren one, indeed. In the *Butler Bros.* case it refused to accept detailed accounting expositions showing that the allocation fraction erred by including actual interstate income in the intrastate income figure. It virtually discarded the *Hans Rees* decision, *supra*, in which a fraction was overturned, and made a definite statement that in the future only fractions which were clearly arbitrary would be reviewed.

In practical result, therefore, the Supreme Court does now tacitly sanction the taxation of the net income from interstate commerce of a foreign corporation which does both intrastate and interstate business. A state, under the [fol. 142] pretense of taxing income of a corporation from intrastate business, can apply a fraction to total income in order to determine intrastate income; and the result achieved is taxable, whether actual interstate income is included or not, as long as the fraction is not openly arbitrary. In *Ford Motor Co. v. Beauchamp*, 308 U. S. 331, 60 S. Ct. 273, 84 L. Ed. 304, Texas levied a franchise tax on the Ford Company, which was engaged in both intrastate and interstate business. The tax was allegedly based on the proportion of capital assets of the Company located in Texas, and an allocation fraction was used to reach a figure of over twenty-three million dollars. Although the Company showed that the actual value of its Texas assets was only some three millions, the tax was upheld by the Supreme

Court, with only Mr. Justice McReynolds dissenting. The logical conclusion would appear to be that, provided a mere minimum of intrastate business is discovered, a substantial tax may be levied on the interstate income; while if such minimum is not discovered, no tax can be collected no matter how large is the interstate income actually developed within the state—a *reductio ad absurdum* in a field where we are instructed to be highly practical.

Next we must observe that at least a minority, and possibly more, of the present Court is committed to the view, expressed most forcibly by Mr. Justice Cardozo, dissenting, in *Anglo-Chilean Nitrate Sales Corp. v. Alabama*, *supra*, that the tax is properly levied on a concern which has qualified to do intrastate business, even though it is not actually so engaged. This is in line with the consistent view of the Court in construing a tax of this kind to be one upon the privilege of "doing business in a corporate capacity," and not upon the business or activities that were the outcome of the privilege. *Home Ins. Co. of New York v. State of New York*, 134 U. S. 594, 10 S. Ct. 593, 32 L. Ed. 1025; *Flint v. Stone Tracy Co.*, 220 U. S. 407, 31 S. Ct. 342, [vol. 143] 55 L. Ed. 389, Ann. Cas. 1912B 1312; *Michigan v. Michigan Trust Co.*, 286 U. S. 334, 52 S. Ct. 512, 76 L. Ed. 1136. This concept is, of course, reinforced by the action of the legislature in 1937 in expressly making the tax one upon not merely the carrying on of business in the state, but also upon "the right to carry on" such business.

The district court made note of this argument, but held it inapplicable because plaintiff was not fully authorized to do business within the state unless and until it had the certificate of public convenience of the Connecticut Public Utilities Commission for the operation of intrastate trucks. But such regulations are of a police nature, comparable to licensing of motor vehicles, and can hardly be considered as affecting the fundamental franchise of the state to carry on a local business, which is the privilege upon which the tax is levied. A corporation when it becomes a local entity must, of course, submit, like all others, to numerous and increasing regulations for the public welfare; and its duty to pay taxes once it is properly within the state, should not be made to depend upon its compliance with all such regulations.

Finally, and perhaps most important of all, are the broad trends in favor of the state-taxing power shown of late by the present Court. Perhaps most important is the announcement of the view, following that of Justice Brandeis dissenting in the three controversial cases upon which this judgment particularly rests, that it is the duty of Congress, not of the courts, to protect interstate commerce against the evils of unfair state taxation. This view has been most cogently expressed by Mr. Justice Black in persuasive dissents in *Gwin, White & Prince v. Henneford, supra*, and *J. D. Adams Mfg. Co. v. Storen*, 304 U. S. 307, 316, 58 S. Ct. 913, 82 L. Ed. 1365, 117 A. L. R. 429. Thus, in the *Gwin* case, *supra*, 305 U. S. at page 455, he said: "I would return to the rule that—except for state acts designed to impose [fol. 144] discriminatory burdens on interstate commerce because it is interstate—Congress alone must 'determine how far [interstate commerce] * * * shall be free and untrammelled, how far it shall be burdened by duties and imposts, and how far it shall be prohibited.' *Welton v. Missouri*, 91 U. S. 275, 280, 23 L. Ed. 347." By 1940, Mr. Justice Black had been joined by Justices Douglas and Frankfurter in dissent in *McCarroll v. Dixie Greyhound Lines*, 309 U. S. 176, 189, 50 S. Ct. 504, 84 L. Ed. 683, where they said: "Unconfined by 'the narrow scope of judicial proceedings' Congress alone can, in the exercise of its plenary constitutional control over interstate commerce, not only consider whether such a tax as now under scrutiny is consistent with the best interests of our national economy, but can also on the basis of full exploration of the many aspects of a complicated problem devise a national policy fair alike to the States and our Union."

There can be no question that this view so compellingly expressed will have increasing weight in the deliberations of the Court and, even if it is not accepted by the majority in full, will tend to prevent the invalidating of taxes on formal grounds. We have already pointed out the increasingly favorable attitude of the Court towards gross receipts taxes. A commentator, cited *supra*, who considers the present Court to stand four to three against the proposition of judicial lack of power in the premises, with two justices not yet recorded, goes on to say that these circumstances "seem to foreclose any probability that taxes on gross receipts from interstate transportation and com-

munication will be condemned on formal grounds, if otherwise unobjectionable," and that "the Court will probably sustain such a tax if it does not threaten interstate commerce with a heavier burden than local commerce, or in some other manner threaten an unfair or unreasonable burden on interstate commerce." Lockhart, 57 Harv. L. Rev. at 95. [fol. 145] It is perhaps these developments within the Court which led Mr. Chief Justice Stone, speaking for a unanimous court, to say, by way of dictum, it is true, but nevertheless apparently advisedly: "In any case, even if taxpayer's business were wholly interstate commerce, a nondiscriminatory tax by Tennessee upon the net income of a foreign corporation having a commercial domicile there, *cf. Wheeling Steel Corp. v. Fox, supra* [298 U. S. 193, 56 S. Ct. 773, 80 L. Ed. 1143], or upon net income derived from within the state, *Shaffer v. Carter*, 252 U. S. 37, 57, 40 S. Ct. 221, 64 L. Ed. 445; *Wisconsin v. Minnesota Mining Co.*, 311 U. S. 452, 61 S. Ct. 253, 85 L. Ed. 274; *cf. New York ex rel. Cohn v. Graves*, 300 U. S. 308, 57 S. Ct. 466, 81 L. Ed. 666, 108 A. L. R. 721, is not prohibited by the commerce clause on which alone taxpayer relies." *Memphis Natural Gas Co. v. Beeler*, 315 U. S. 649, 656, 62 S. Ct. 857, 86 L. Ed. 1090. The broad sweep of this language is noteworthy. It is not limited to a tax at the commercial domicile. (Defendant has claimed that plaintiff has a commercial domicile within the state, but we agree that its commercial domicile is in Chicago.) On the contrary, there is the flat statement that even if the taxpayer's business is wholly interstate commerce a nondiscriminatory tax by a state upon net income derived from within the state is not prohibited by the constitutional provision.

Here this tax certainly cannot be considered discriminatory. It is levied on all corporations ~~carrying on business~~ within the state, local corporations paying at the same rate as foreign ones, and with most careful provisions for the ascertainment of only income produced within the state. Indeed, if we should strike down the tax against plaintiff, we would be discriminating against intrastate business, which would still have its burdens to pay under the tax and which is just as much entitled to constitutional protection from discrimination as interstate commerce, as the dissents [fol. 146] of Mr. Justice Brandeis and Mr. Justice Black, cited above, in particular have pointed out. As a matter of

fact, such an action by us would mean that a corporation which does a vast business within the state will escape completely from contributing to the expenses of the state. There will also be offered to large interstate commerce corporations the possibility of escaping state income taxation, since the main office and the domicile of the corporation can be set up in a state with no such taxes, and the business can be kept strictly interstate. The record in this case shows how skillfully the plaintiff is avoiding heavy taxation not merely by its choice of domicile, but even by the location of its affiliate, the owner of its trucks, in a state, Illinois, where licensing fees are favorable and reciprocity is had with other states. This business, of course, competes with the interstate railroads. Its comparative immunity from taxation seems neither equitable nor desirable—at least until and unless Congress so determines.

It is objected that if Connecticut can levy this tax then all states through which plaintiff's trucks operate can levy a somewhat similar tax, and plaintiff will be burdened by the iniquity of multiple taxation. There seem two ready answers to this suggestion. The first is that the record does not suggest that other states are making such levies, and it will be time enough to consider the problem of multiple taxation when and if it arises. *Henneford v. Silas Mason Co.*, 300 U. S. 577, 587, 57 S. Ct. 524, 81 L. Ed. 814. The second is that if in fact other states can show as rational a basis for taxation on this business as is here shown there seems no reason why plaintiff, like its competitor railroads, should not pay the taxes so properly assessed. Mr. Justice Black has well expressed this idea in his dissent in *Guthrie, White & Prince v. Henneford*, *supra*, 305 U. S. at page 448: "A business engaging in activities in two or more States should bear its part of the tax burdens [fol. 147] of each. If valid, non-discriminatory taxes imposed in these States create 'multiple' burdens, such 'burdens' result from the political subdivisions created by our form of government. They are the price paid for governmental protection and maintenance in all States where the taxpayer does business. A State's taxes are not discriminatory if the State treats those engaged in inter-state and intra-state business with equality and justice."

We conclude, therefore, that the levy upon plaintiff is only of a nondiscriminatory tax upon income fairly at-

tributable to interstate business in this state and that as such it is not prohibited under the commerce clause of the United States Constitution. Plaintiff also urges that the tax is invalid as violating both federal and state due process. We need add nothing to what we have already said save to notice a particular objection of improper delegation of legislative power to the commissioner. While this is urged on both federal and state grounds, it is said that the state rule is especially strict. *State v. Stoddard*, 126 Conn. 623, 13 A. 2d 586; *Connecticut Baptist Convention v. McCarthy*, 128 Conn. 701, 25 A. 2d 656. But the Connecticut court relies strongly and almost exclusively on decisions of the Supreme Court of the United States; and we do not believe it intends to adopt a peculiar local rule. Plaintiff's objection is directed particularly to the power accorded the commissioner under §420c of allocating income within and without the state and rests upon the contention that plaintiff's income is not derived from the use of tangible personal property, and hence that the allocation is made not by employment of the allocation fraction set forth in the statute, but by the alternative method, that is, "under rules and regulations of the tax commissioner." The latter is urged as the unconstitutionally broad power.

We should hesitate in this proceeding to declare even the broader alternative so defective as to make the tax unconstitutional. We have seen how unwilling the Supreme Court is to upset a method of allocation unless it is shown improper by "coherent evidence." *Butler Bros v. McCollan*, *supra*. The method here, even down to the objected to alternative, was worked out by a very able commission in the light of what seems to have been considerable experience elsewhere; and the provisions particularly ob-

* The Temporary Tax Commission, consisting of seven distinguished citizens of the state appointed by the Governor pursuant to Special Act No. 474 of 1933, under the chairmanship of Fred R. Fairchild, Professor of Taxation at Yale University, and with a skilled research staff, reported that this was the Massachusetts plan of allocation in use in five states and similar to the plans of six other states and found to be the most satisfactory by a Committee of the National Tax Association after a decade of study. Rep. 1934, 458-460.

jected to are additions, made after the general principle has first been stated, which together with the further relief and appeal sections, constitute an unusual and significant attempt to avoid unfairness or injustice in special cases. But the commissioner has found the more explicit alternative to be applicable, and we are not disposed to quarrel with that administrative determination. Where "use of tangible personal property" ends and personal service begins may be often difficult to decide; at least it seems not unreasonable to conclude that a trucking business requires preëminently the use of trucks. The fact that for another purpose the Connecticut court has held "service" to be "the predominant feature" of the furnishing of food in a restaurant, *Lynch v. Hotel Bond Co.*, 117 Conn. 128, 131, 167 A. 99, does not particularly help us here. As a matter of fact, the method here employed appears to have produced a result anything but harsh in the light of the large amount of plaintiff's business which originates in this state.* We think this objection [fol. 149] not well taken. Cf. *Smolowe v. Delendo Corp.*, 2 Cir., 136 F.2d 231, 240, certiorari denied 64 S. Ct. 56; *Stanley Works v. Hackett*, *supra*.

A final objection to the levy is that the commissioner, in adding to plaintiff's federal net income "interest and rent paid" during the year, as provided in §419c, included as part of the tax base here 40 per cent of the amount which plaintiff paid to its affiliate, Wallace Transport Co., for lease of the latter's trucks. The purpose of this statutory provision was carefully explained by the Commission—that a business tax should not depend upon the financial organization of a corporation, but upon the amount of the business done, and net income should include "payments and accruals to the credit of all contributors of capital—that is, rental and interest payments and accruals as well as net profits available for stockholders," thus, of course, avoiding tax evasion by the mere device of renting instead of owning property. Rep., Connecticut Temporary Commission to Study the Tax Laws, 1934, 471; cf. *W. T. Grant Co. v. McLaughlin*, 129 Conn. 663, 30 A. 2d 921, and *House of Hesselbach, Inc. v. McLaughlin*, 127 Conn. 507, 18 A. 2d 367. And this inclusion in the tax base was sanctioned by the case cited and

* See note 4, *supra*, which demonstrates how the ratio based on receipts is sharply reduced by the other two ratios.

relied on by the Commission, *Atlantic Coast Line R. Co. v. Doughton*, 262 U. S. 413, 422, 43 S. Ct. 620, 67 L. Ed. 1051. Its general fairness is obvious; plaintiff by causing Wallace to be incorporated for the ownership of the interstate trucks here involved should not thereby obtain an unusual tax advantage over concerns whose business is not thus divided.

When the commissioner first came to apply this provision to the "purchased transportation," he felt, and was so advised by the State Attorney-General, that he should deduct from truck rentals the expenses assignable to salaries and wages, gasoline, oil, and other related expenses created by the operation of the trucks. In view of the number of taxpayers involved, he decided to establish a general ratio, [fol. 150] rather than seek for one in each particular case, and, after taking evidence from various trucking concerns, established a mean among the amounts shown of 40 per cent. The district court has found that, while this is a fair deduction as applied to the companies examined, their operations are not fairly comparable to those of plaintiff. This was based upon some evidence introduced by plaintiff of certain differences in the operations in question, as, for example, the length of the hauls involved, and perhaps more particularly of a balance sheet of the Wallace Company showing a net loss on its operations. But we think this does not help the plaintiff to demonstrate an unconstitutional tax exaction. It appears to be assumed, though not specifically found, that the same persons who own plaintiff also own Wallace; but there is no reason shown why the separate entities should be disregarded and Wallace's losses attributed to plaintiff or how this fact shows a greater expense to be attributed to truck operation than the commissioner has found to be normal. Here, indeed, there is some reason to suppose that the expenses should be less, for plaintiff, apparently unlike the companies studied, puts its own drivers on the trucks and pays their salaries. On the face of it, the entire payment was for the lease of equipment, and it would seem that the commissioner might prima facie have disallowed the deduction in full (as he does by adding to it federal net income as provided by the statute) until and unless the plaintiff has shown its inequity. Certainly that should be true, at least in a proceeding questioning the validity of the tax, where the commissioner has gone farther and made an allowance deduced from general experience and fair, perhaps more

than fair, on its face as to the taxpayer concerned. We must remember that for all specific inequities in a particular levy, the taxpayer has his full remedy under the statute, first to the commissioner and then to the courts of the state, to secure a reduction or an elimination of the tax.

[fol. 151] *Jurisdiction of the Federal Court.* In its opinion the district court said, 47 F. Supp. at page 674: "It is agreed that no plain, speedy and efficient remedy may be had in the state courts either by appeal, *Lathrop v. Norwich*, 1930, 111 Conn. 616, 151 A. 183, or by injunction, *Waterbury Savings Bank v. Layler*, 1878, 46 Conn. 243." It also made extensive findings of fact and conclusions of law to support this holding. These followed plaintiff's complaint, which contained not only usual jurisdictional allegations covering its constitutional claims, the diverse citizenship of the parties, the amount in controversy, and the applicability of 28 U. S. C. A. §400, authorizing declaratory judgments, but also special allegations as to Connecticut rules of law—hereinafter discussed—to the effect that a taxpayer cannot appeal from a tax assessment by the method provided in the statute and at the same time claim the statute to be unconstitutional, that the remedy of injunction is precluded, that the commissioner threatens penalties and liens against plaintiff and its business, and that plaintiff has no plain, speedy, and efficient remedy in the state courts and is threatened with "irreparable harm." All of these allegations of the complaint the defendant expressly admitted in his answer, denying only other allegations having to do directly with the asserted invalidity of the tax. And before us, defendant, while not alluding to the court's jurisdiction, pressed strongly for an adjudication of the validity of the tax.

Notwithstanding this concurrence of view and desire of the parties for a complete adjudication, it is our duty to make an independent reexamination of the question. The Act of August 21, 1937, 50 Stat. 738, amending Jud. Code §24, 28 U. S. C. A. §41(1), to deny "jurisdiction" to a district court "of any suit to enjoin, suspend, or restrain the assessment, levy, or collection of any tax imposed by or pursuant to the laws of any State where a plain, speedy, and [fol. 152] efficient remedy may be had at law or in equity in the courts of such State," is in the public interest to avoid needless obstruction of the domestic policy of the states."

Great Lakes Dredge & Dock Co. v. Huffman, 319 U. S. 293, 298, 63 S. Ct. 1070, 87 L. Ed. —; cf. also *Bender v. Connor*, D. C. Conn., 28 F. Supp. 903. Following this clear mandate, we have considered the matter at length and conclude that jurisdiction is to be upheld on either one of two grounds which, as applied to this case, complement each other. One is that our conclusion, which, as the *Huffman* case points out, 319 U. S. at page 295, is in effect a declaratory judgment in favor of constitutionality, is, we think, within the discretionary power of the federal courts under the limitations set by that case. The other is that, while we are not prepared to assert dogmatically that no remedy is available in the state courts, we are convinced that, if existing, it is anything but "plain." As in *Driscoll v. Edison Light & Power Co.*, 307 U. S. 104, 110, 59 S. Ct. 715, 83 L. Ed. 1134, "At any rate, without an authoritative determination by the state courts, we cannot say, for this character of proceeding, that the remedy in the state courts is plain, speedy and efficient." See, also, *Mountain States Power Co. v. Public Service Commission of Montana*, 299 U. S. 167, 170, 57 S. Ct. 468, 81 L. Ed. 99, where the remedy depended upon "the problematical outcome of future consideration," and *Corporation Commission of Oklahoma v. Cary*, 296 U. S. 452, 458; 56 S. Ct. 300, 80 L. Ed. 324, where the opposed decisions of the state court had caused "serious uncertainty."

In the *Huffman* case the Court did not decide whether the statutory prohibition against tax injunctions applied also to declaratory judgments, but held that the previously existing discretionary power in the federal courts as to award of relief to a taxpayer applied to require dismissal of an action for such a judgment, without decision on the merits, when state law with the right to appeal to the Court, afforded [fol. 153] adequate protection to the taxpayer. The Court stressed, 319 U. S. at page 298, that "interference with state internal economy and administration" was at the base of this restraint in granting relief. Where that reason is lacking, it would seem proper to a federal court to act, in the absence of a definite prohibition by Congress; indeed, the Court has held that even a definite prohibition against suits to restrain collection of federal taxes, now 26 U. S. C. A. §3653, may be waived by "earnest request" of the Government that the Court pass upon the validity of the tax law. *Helvering v. Davis*, 301 U. S. 619, 639, 57 S. Ct. 904, 81 L. Ed.

1307, 109-A. L. R. 1319. Here the state officials charged with the assessment of the tax are seeking a definitive adjudication; and they do so in the light of grave uncertainty—as we shall see—as to what other course will protect them speedily and efficiently in the discharge of their statutory duties. Here, in so far as it may be a matter of discretion; we hold it clear that state internal economy and administration will be promoted, rather than retarded; by adjudication on the merits.

Turning now to the plainness of the remedy available in the state courts, we find a considerable and definite line of authorities, applied in tax proceedings as well as generally, holding that one who accepts the remedy of appeal provided by a statute has thereby agreed to its validity and cannot at the same time challenge its legality. In addition to the *Lawler* case cited by the district court are *Holley v. Sunderland*, 110 Conn. 80, 86, 147 A. 300, 302; *Young v. West Hartford*, 111 Conn. 27, 149 A. 205, 207; *Coombs v. Larson*, 112 Conn. 236, 246, 152 A. 297; *Chudnov v. Board of Appeals*, 113 Conn. 49, 51, 154 A. 161, 164; and *National Transp. Co. v. Toquet*, 123 Conn. 468, 196 A. 344, 348. The rule has also been applied in a case where the state officials themselves sued to collect a tax. *Spencer, State Treasurer v. Consumers' Oil Co.*, 115 Conn. 554, 559, 162 A. 23. It appears [fol. 154] not to prevent an action for a declaratory judgment, *National Transp. Co. v. Toquet*, *supra*, although this alone is hardly an effective remedy in view of the drastic penalties provided by the statute for the nonpayment of the tax. On the other hand, in a still later case, *Connecticut Baptist Convention v. McCarthy*, 128 Conn. 701, 25 A. 2d 656, the court held unconstitutional the very act which it had declined to review in *Holley v. Sunderland*, *supra*, citing the *Holley* case without comment, and with no suggestion of its overruling this line of authorities.

In a case arising before any of the cases cited, *Underwood Typewriter Co. v. Chamberlain*, 92 Conn. 199, 102 A. 600, the court had held provisions for appeal to the superior court in a 1915 tax statute there under consideration sufficiently separable to allow a testing of the validity of its application to the appellant after the latter had paid the tax under protest. The appeal provisions there were similar to those provided in many instances both as to town and

state taxes, and not greatly different from the provisions of the 1935 statute, § 435c, which, as we have seen above, authorizes the court to order a refunding of the tax. It is true, however, that the appeal provisions of the 1915 statute, now to be found in Conn. Gen. Stat. 1930, § 1335, were more general and inclusive than those we are now considering; they, together with provisions for statements, corporate returns, and tax assessments, were part of a comprehensive corporation tax statute of thirty-two sections, covering such diverse cases as railroad and street railway companies, water, gas, electric power, and other public utility companies, stock insurance companies, and miscellaneous corporations. See, *inter alia*, Gen. Stat. 1930, §§ 1087, 1097, 1107-1123, 1274, 1302-1337. On the other hand, § 435c of the 1935 statute is a limited and a closely integrated part of the one single type of tax there provided. In *Torrington Co. v. Hackett*, 124 Conn. 403, 200 A. 338, 340, it was given a re-[fol. 155] strictive interpretation and held unavailing to correct an error in a corporate return, disclosed only by a court decision interpreting the act favorably to the taxpayer and rendered after the statutory time for appeal of one month had expired. Under the circumstances and in the light of these various state decisions we cannot say that the statutory appeal is available for the plaintiff's contention here.

Turning now to the availability of the injunctive process, the Connecticut court has refused it in the *Lauder* case, *supra*, cited by the district court, and in other cases involving town taxes, including *Wilcox v. Town of Madison*, 106 Conn. 223, 137 A. 742, which appears to be the last authoritative statement of the rule. The court there said that it had refused to adopt the rule resting jurisdiction "solely upon the illegality or invalidity of the tax," but instead had required a showing of threat of irreparable injury and lack of adequate remedy at law. It cited several cases where the remedy had been refused, and stated that it was aware of only two cases where it had been granted, *Secley v. Town of Westport*, 47 Conn. 294, 36 Am. Rep. 70, a "flagrant case" of a tax against neither "the proper person nor the proper estate," and hence without the general rule, and *New London v. Perkins*, 87 Conn. 229, 87 A. 724, where a city, legally exempt from taxation and required to operate a ferry, was allowed to enjoin the tax collector of a neighbor-

ing town from selling for taxes land used for the ferry's public landing. Even the possibility of appeal under the statute might be held to preclude an injunction here. Moreover, precedents in actions against towns are not helpful in view of the state's immunity from suit. No action of any kind against state taxing officials has been found, although the *Underwood* case, *supra*, does suggest that the statutory appeal should apply to make an injunction unnecessary. Against whom it should be directed is not stated. In any event, therefore, the plaintiff's right to an injunction is far from plain.

[fol. 156] The state's immunity from suit also makes inapplicable another line of cases holding that a town tax paid under protest is under duress, so that a suit will lie against the town for its refund. *Shaw v. City of Hartford*, 56 Conn. 351, 15 A. 542; *H. E. Verran Co. v. Town of Stamford*, 108 Conn. 47, 49, 142 A. 578; *Pitt v. City of Stamford*, 117 Conn. 388, 167 A. 919. It seems at least doubtful whether any state official can be found who would be personally liable for a refund of the tax. In the very early case of *Thames Mfg. Co. v. Lathrop*, 7 Conn. 550, town selectmen were held liable in trespass for a seizure of property for a tax invalid because of their failure to perform a ministerial act. This case was distinguished and limited in *Phelps v. Thurston*, 47 Conn. 477, where liability was denied and the court said, at page 486, that the plaintiff might have paid his tax and "an action of assumpsit against the town would have been a plain and effective remedy." No other case applying this principle even against town taxing officials has been discovered. In *Hubbard v. Brainard*, 33 Conn. 563, 576, decided by a divided court and reversed on another ground in 12 Wall. 1, 79 U. S. 1, 20 L. Ed. 272, recovery under the first federal income tax law was allowed against the collector of internal revenue, which, of course, is only the modern federal rule, as we discussed in *Hammond-Knowlton v. United States*, 2 Cir., 121 F. 2d 192, 194, 195, certiorari denied 314 U. S. 694, 62 S. Ct. 410, 86 L. Ed. 555.

If personal liability were to be spelled out here, it would be difficult to decide upon whom the burden should rest. While the tax commissioner computes the tax, the 935 statute provided in § 431c that the tax should be paid to the commissioner "in cash or by check, draft or money order

drawn to the order of the state treasurer," and in § 432c, [fol. 157] entitled, "Settlement with treasurer," that "All funds received by the tax commissioner under the provisions of this chapter shall be recorded with the comptroller and shall be deposited daily with the state treasurer." Here are three participating state elective officials; in addition the secretary of state is to institute proceedings for the forfeiture of the charter of corporations failing to file a return, § 428c, the attorney general may sue for the tax or to foreclose a tax lien, and various deputies, marshals, county sheriffs, deputy sheriffs, and town constables have duties as to the seizure of property or other methods of collection of the tax, §§ 433c and 357c and Supp. 1939, § 305c. Finally, since the responsibility of the state is not pledged for the action of any of these officials and no claim for their acts can be had except by special legislative act, Gen. Stat. 1930, § 83, it is questionable whether their personal responsibility should be considered adequate for the taxpayer's protection.

Of course, we recognize that the Connecticut Supreme Court of Errors is not at all foreclosed by these decisions from finding some remedy available or, indeed, clear. That is its undoubted province. Ours is decidedly more limited. We are bound to accept state law as we find it, and can hardly justify exposition which adds by assuming only to clarify. Since we do not find a definitive state determination, we must conclude that the state remedy depends upon "the problematical outcome of future consideration," and hence that jurisdiction exists for our judgment herein. Judgment reversed for the entry of a judgment for defendant on the merits.

DISSENTING OPINION

L. HAND (dissenting):

Section 418(c) of the Connecticut "Corporation Business Tax Act of 1935" imposes an excise upon the "franchise for the privilege of carrying on or doing business within the

For reasons not apparent, the legislature in 1943, after the decision below, amended this statute to provide that such checks should thereafter be made payable "to the order of the tax commissioner." Conn. Gen. Stat., Supp. 1943, § 298g.

[fol. 158] state." The plaintiff has asked no leave of the state to do its business, and needs none; nor has it a "commercial domicile" within the state which would draw upon itself the state's taxing powers. Moreover, some parts of the statute are clearly inapplicable to it: *e. g.* § 248(c) which forfeits the corporation's "corporate rights and powers" after a delinquency of two years, and even terminates "its existence as a corporation." Thus, we have before us in the barest possible form the effort of a state to levy an excise directly upon the privilege of carrying on an activity which is neither derived from the state, nor within its power to forbid. Concededly there is an unbroken line of decisions holding such a tax invalid; and in *Anglo-Chilean Nitrate Sales Corp. v. Alabama*, 288 U. S. 218, even the dissenting justices were careful to declare that the result might have been different if the corporation "had not sought for and obtained a privilege or franchise to do a local business in the state" (p. 229). Moreover, the latest decision of the Supreme Court (*Mayo v. United States*, 319 U. S. 441) upset an excise, imposed directly upon an activity of the United States, by distinguishing situations in which the tax was upon an agent of the government (*Graves v. New York, ex rel. O'Keefe*, 306 U. S. 466), or upon property necessary to the activity (*Alabama v. Boozer & King*, 314 U. S. 1), or in which a state statute regulated an agency which supplied the activity. (*Penn Dairies, Inc. v. Milk Control Commission of Pennsylvania*, 318 U. S. 261.) One ground at any rate for that distinction is, that the state's action may, or may not, impose a burden upon the federal activity, for no one can say what will be the final incidence of the charge; reasoning which has also been used to validate a tax which only "indirectly" burdens interstate commerce.

It seems to me clear that we are therefore not yet justified in supposing that the distinction between an excise upon a federal activity, and an excise upon some contributing activity has ceased to exist. If I were free to start afresh, [fol. 159] I should not myself make that distinction; it is derived, I believe, either from the actual decision in *McCulloch v. Maryland*, 4 Wheat. 316, or from the gloss that later cases have put upon it, depending on how seriously one takes certain parts of the opinion. I think it a barren way to treat the distribution of power in a federation like ours to say that, if a state can tax a national activity, it follows that it must have the power to cripple or frustrate it. If I

could, I should hold that, while Congress had a paramount power to prevent just that—or while in plain cases possibly the courts might themselves intervene—in ordinary situations the states were free to tax all activities within their borders provided they did so equitably. The prevalent doctrine may perhaps be accounted for because in the early days of the Republic it was natural—possibly it was necessary—to set absolute boundaries in the distribution of political power. National sentiment was weak, Congress was not disposed to a strong assertion of federal powers; and it always gives an appearance of greater authority to a conclusion to deduce it dialectically from conceded premises than to confess that it involves the appraisal of conflicting interests, which are necessarily incommensurable. All that is now past; and the Supreme Court may eventually hold that Congress alone can say when such a tax is “reasonable”; conceivably, as I have suggested, it may in extreme cases undertake that duty itself. But it seems to me clear that, whatever the future may hold, it has not done so yet; but that, on the contrary, it still adheres to the old distinction.

I do not forget that the tax at bar is not levied upon an activity of the government, like the tax involved in *Mayo v. United States*, *supra* (319 U. S. 441). Maybe there is a distinction between a governmental activity and an activity of individuals, like interstate commerce, though both are equally protected by the Constitution; it is certainly true that, as to regulation of interstate commerce, the notion of the paramountcy of Congress has already gained great [fol. 160] headway. However, I can find no such incursion into the field of taxation, except in dissents; and while the doctrine I should like to see prevail may make its first advance in the “direct” taxation of interstate commerce, there appears to me to be great difficulty in finding an excuse for such a beginning that does not swallow the whole doctrine. Up to the present, so far as I can see, the immunity of interstate commerce from such taxation as such has rested upon the same considerations which still prevail as to the immunity of an activity of the United States. Moreover, the arguments which have been at times put forward—mistakenly in my opinion—to justify the second, apply equally to the first: I mean that all federal powers were expressly granted by the states, and that they have a repre-

sentation in Congress which the nation has not in their legislatures.

It is always embarrassing for a lower court to say whether the time has come to disregard decisions of a higher court, not yet explicitly overruled, because they parallel others in which the higher court has expressed a contrary view. I agree that one should not wait for formal retraction in the face of changes plainly foreshadowed; the higher court may not entertain an appeal in the case before the lower court, or the parties may not choose to appeal. In either event the actual decision will be one which the judges do not believe to be that which the higher court would make. But nothing has yet appeared which satisfies me that the case at bar is of that kind; and, as I have said, I can see no good reason for making any distinction between one kind of federal activity and another. The way out is in quite another direction, and includes both. Nor is it desirable for a lower court to embrace the exhilarating opportunity of anticipating a doctrine which may be in the womb of time, but whose birth is distant; on the contrary I conceive that the measure of its duty is to divine, as best it can, what would be the event of an appeal in the case before it.

[fol. 161] IN UNITED STATES CIRCUIT COURT OF APPEALS,
SECOND CIRCUIT

SPECTOR MOTOR SERVICE, INC., Plaintiff-Appellee,

v.

CHARLES J. McLAUGHLIN, Tax Commissioner, WALTER W.
WALSH, Substituted Defendant, Defendant-Appellant

JUDGMENT—Filed January 20, 1944

Appeal from the District Court of the United States for
the District of Connecticut

This cause came on to be heard on the transcript of record from the District Court of the United States for the District of Connecticut, and was argued by counsel.

On Consideration Whereof, it is now hereby ordered, adjudged, and decreed that the judgment of said District

Court be and it hereby is reversed with costs for the entry of a judgment for the defendant on the merits.

It is further ordered that a Mandate issue to the said District Court in accordance with this decree.

Alexander M. Bell, Clerk.

[fol. 162] [File endorsement omitted.]

[fol. 163] Clerk's Certificate to foregoing transcript omitted in printing.

[fol. 164] SUPREME COURT OF THE UNITED STATES

ORDER ALLOWING CERTIORARI—Filed May 22, 1944

The petition herein for a writ of certiorari to the United States Circuit Court of Appeals for the Second Circuit is granted.

And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.

(3424)

Supreme Court of the United States

OCTOBER TERM, 1943.

No.

62

SPECTOR MOTOR SERVICE, Inc., a corporation,

Petitioner,

vs.

CHARLES J. McLAUGHLIN, Tax Commissioner,

WALTER W. WALSH, Substituted Defendant,

Respondent.

**PETITION FOR WRIT OF CERTIORARI TO THE UNITED
STATES CIRCUIT COURT OF APPEALS FOR THE
SECOND CIRCUIT.**

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Supreme Court of the United States

OCTOBER TERM, 1943.

No.

SPECTOR MOTOR SERVICE, INC., a corporation,

Petitioner,

VS.

CHARLES J. McLAUGHLIN, Tax Commissioner,

WALTER W. WALSH, Substituted Defendant,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT.

*To the Honorable the Chief Justice and Associate Justices
of the Supreme Court of the United States:*

I.

Summary Statement of Matter Involved.

This is an action to enjoin the assessment of an excise tax by the defendant state tax commissioner upon the plaintiff, an exclusively interstate motor freight carrier, and for a declaratory judgment holding that the plaintiff was not liable to pay such excise tax. The defendant purported to act under the provisions of the Connecticut Corporation Business Tax Act of 1935 as amended, the pertinent parts of which are included in the Appendix to this petition.

In brief, the Connecticut Act provides that every corporation (with certain exceptions not here material)

"carrying on business in this state" shall pay annually "a tax or exise upon its franchise for the privilege of carrying on or doing business within the state" of 2 per cent of the defined net income received "from business transacted within the state during the income year." (Section 418c Cum. Supp. to General Statutes.) By Section 176f effective July 1, 1937, after a portion of the taxes involved in this case had accrued, the tax was made applicable not only to those corporations carrying on business in Connecticut but also to those "having the right to carry on business in this state."

As to those corporations whose trade or business is carried on "partly without the state," Section 420k provides that the tax shall be imposed on a base "which reasonably represents the proportion of the trade or business carried on within the state." Interest, dividends, royalties and net gains from the sale of assets are allocated on the basis of their source. The same section provides that income derived from business other than the manufacture, sale or use of tangible personal or real property shall be allocated within and without the state under regulations of the tax commissioner. However, when income is derived from the manufacture, sale or use of tangible personal or real property, the portion to be attributed to "business within the state" is determined by an allocation fraction which is the simple arithmetical mean of the three following fractions:

(1)
$$\frac{\text{Average monthly fair cash value of taxpayer's tangible property in Connecticut}}{\text{Total average monthly fair cash value of all taxpayer's tangible property}}$$

(2)
$$\frac{\text{Wages paid to employees from Connecticut offices}}{\text{Total wages paid all employees of taxpayer}}$$

3

(3) Gross receipts from transactions chiefly negotiated
and executed in Connecticut

Taxpayer's total gross receipts (excluding income
from interest and dividends or capital gains)

The plaintiff claimed and the trial court found that it was engaged in carrying freight by motor exclusively in interstate commerce chiefly from Chicago and St. Louis to the eastern seaboard and return and that it picked up and delivered freight in Connecticut but all in interstate commerce and that it had no power to engage in intra-state commerce and in fact at no time has so engaged. The plaintiff is a Missouri corporation with its executive offices in Chicago, Illinois. In Connecticut it maintains two rented depots for the transmission of freight in interstate commerce. It has 27 employees in Connecticut to service those depots but they are paid by draft on the plaintiff in Chicago, where all matters of rating and billing are handled. The plaintiff maintains a bank account in Bridgeport, Connecticut, where collections are deposited but no employee in Connecticut has authority to draw on that account. The plaintiff has no real estate in Connecticut and, apart from a few pick-up trucks, it owns in Connecticut personal property—mostly depot equipment—worth between \$1500-\$2000.

As the trial court found (Record, p. 115), the plaintiff, at the request of its landlord, on July 11, 1934, filed with the Secretary of the State of Connecticut a certificate of its incorporation in Missouri and also a certificate appointing the Secretary its attorney for service of process in Connecticut, pursuant to Section 3488, General Statutes of the State of Connecticut. That action, however, conferred no rights on the plaintiff because the plaintiff never was authorized, either by the Interstate

D

Commerce Commission or by the Public Utilities Commission of Connecticut, to conduct an intrastate business. Its only purpose and effect was to subject the plaintiff to personal liability if it should default in its rent.

The defendant state tax commissioner, purporting to act under the Corporation Business Tax Act, assessed the plaintiff for taxes claimed to be due for the years ending May 31, 1936, May 31, 1937, May 31, 1938, and for the period ending December 31, 1938, and for the years ending December 31, 1939, and December 31, 1940, aggregating the sum of \$7,795.50.

The plaintiff thereupon brought this action in the United States District Court for the District of Connecticut where a judgment for the plaintiff was entered enjoining the defendant from enforcing payment of those assessments (47 Fed. Supp. 671). The trial court held that the statute, if applicable to the plaintiff, would be unconstitutional under the decisions of this court because in violation of the commerce clause. Hence it adopted the interpretation that the act was intended to apply only to those corporations a portion of whose business at least was intrastate, that is, within the State of Connecticut. It held, therefore, that the act did not apply to the plaintiff. From that judgment of the District Court the defendant tax commissioner appealed to the United States Circuit Court of Appeals for the Second Circuit where the judgment was reversed on the merits by a divided court (139 Fed. (2d) 809). This petition is to seek a review of that action of the Circuit Court of Appeals for the Second Circuit.

II.

Statement of Jurisdiction.

This action was begun in the United States District Court for the District of Connecticut to enjoin the collection of a tax alleged to have been imposed pursuant to the laws of the State of Connecticut. The trial court and the Circuit Court of Appeals concluded that there is no plain, speedy and efficient remedy afforded by the courts of Connecticut. Although the statute creating the tax permits an appeal from the assessment, it is the law of Connecticut that, by taking advantage of the appeal provisions of a statute, the appellant is precluded from attacking the constitutionality of that statute. *Lathrop v. Norwich*, 111 Conn. 616, 626, 151 Atl. 183 (1930). Likewise, injunctive relief against collection of taxes is not available in Connecticut. *Waterbury Savings Bank v. Lawler, Collector*, 46 Conn. 243 (1878); *Wilcox v. Madison*, 106 Conn. 223, 137 Atl. 742 (1927). The remedy by a suit for declaratory judgment in the state courts is clearly not adequate in view of the heavy penalties provided for non-payment of the tax (Sections 433c and 428c Cum. Supp. to General Statutes). In these circumstances, jurisdiction was vested in the District Court by virtue of 28 U. S. C. Sec. 41 (1), the parties being citizens of different states (Missouri and Connecticut), the amount in controversy being more than \$3,000 and there being no "plain, speedy and efficient remedy" available in the courts of Connecticut. A complementary basis of jurisdiction in these circumstances is the Declaratory Judgment Act, 28 U. S. C. Sec. 400.

The Circuit Court of Appeals acquired jurisdiction by virtue of the defendant's appeal pursuant to the provisions of 28 U. S. C. Sec. 225.

This court has jurisdiction to grant this petition for certiorari and to hear this appeal by virtue of the provisions of 28 U. S. C. Sec. 347 (a) which authorizes this court, upon petition of a litigant, to cause a case to be certified to it from the Circuit Court of Appeals for final determination.

The judgment of the Circuit Court of Appeals sought to be reviewed was entered on January 20, 1944, and this petition is being filed in the office of the clerk of this court within three months of the entry of said judgment, as provided for in 28 U. S. C. Sec. 350.

III.

The Questions Presented.

There are five questions which the plaintiff desires to present to this court if certiorari is granted.

1. The first is that, properly construed, the taxing statute does not apply to the plaintiff because the statute is so phrased as to exclude from its scope foreign corporations which, like the plaintiff, are engaged exclusively in interstate commerce. The statute describes the levy as "a tax or excise upon its franchise for the privilege of carrying on or doing business within the state" and the allocation scheme attempts to tax only that business carried on "within the state."

2. The second is that, if the statute be construed to apply to the plaintiff, it is unconstitutional because it purports to levy a state excise tax on interstate commerce in violation of the commerce clause of the United States Constitution (Article I, Section 8).

3. The third is that, as construed by the defendant, the statute violates the due process clause of the United

States Constitution (Article XIV, Section 1) and of the Connecticut Constitution (Article II). In defining net taxable income, the statute (419c Cum. Supp. Gen. Statutes) does not allow rent to be deducted from gross income. The defendant has held that the cost of hiring trucks (which amounts to 60% of the plaintiff's operating expense) is "rent" and therefore not deductible. As a result, the assessment is not a tax on net income but approaches a tax on gross income in interstate commerce and therefore is unfair, discriminatory and violation of due process.

4. The fourth is that the assessments are void because made by the defendant, an officer of the executive department of the State of Connecticut, acting in a legislative capacity, in violation of Article Second of the Constitution of the State of Connecticut, which provides that "The powers of government shall be divided into three distinct departments and each of them confided to a separate magistracy, to wit, those which are legislative, to one; those which are executive, to another; and those which are judicial, to another." The statute (Sec. 420c of the Supplement to the General Statutes), after providing for an allocation of such forms of income as interest, dividends, royalties and gains, provides that "The remainder of the net income of the taxpayer shall be allocated and apportioned as follows: (a) Such income when received from business other than the manufacture, sale or use of tangible personal or real property shall be specifically allocated within and without the state under rules and regulations of the tax commissioner."

The plaintiff's business is to sell its services. The use of personal property is merely incidental. As to such business, the defendant commissioner was directed by the statute to make an allocation without any standard

er principle to guide him and thus to exercise legislative power in violation of the Connecticut State Constitution.

5. The fifth is that the defendant commissioner made the allocation under an inapplicable section of the statute. He allocated the plaintiff's income under subsection (b) of Section 420c of the Cumulative Supplement to the General Statutes, which applies only to those corporations whose income is "derived from the manufacture, sale or use of tangible personal or real property". The plaintiff's business is, however, the sale of its services and the appropriate section governing allocation was subsection (a) of the same statute which applies to corporations whose income, as is the plaintiff's, is derived from business other than the sale or use of tangible property.

IV.

Reasons Relied on for the Allowance of the Writ.

This case raises the question whether a state may constitutionally levy an excise tax on interstate commerce conducted by a foreign corporation not domiciled within its borders and engaged exclusively in interstate commerce. The trial court held it could not. The majority opinion of the Circuit Court of Appeals, while agreeing that the decided cases of this court supported the trial court's position, stated that the trend toward overruling those decided cases impelled it to anticipate their overruling. See the language of the Circuit Court of Appeals referring to *Alpha Portland Cement Co. v. Massachusetts*, 268 U. S. 203.

"When, however, a corporation is engaged within a state solely in interstate commerce, it must be con-

ceeded frankly, and this is the basis of the thoughtful conclusion of the court below, that the Supreme Court to date has held it immune from net income taxation by that state: * * * If that were the whole story or if farther our duty were limited to picking the closest unoverruled analogy in reported cases and following that blindly and mechanically, we should hold that these cases, and particularly the *Alpha Cement* case, had foreclosed all further discussion. But that is far from the whole story; the trends noted above have gone further in several specific cases fundamentally close to this and in divisions in the Court itself, which are certainly not without significance in forecasting the future course of the law. And our function cannot be limited to a mere blind adherence to precedent. We must determine with the best exercise of our mental powers of which we are capable that law which in all probability will be applied to these litigants or to others similarly situated."

The majority opinion of the Circuit Court of Appeals is therefore frankly and admittedly in conflict with the applicable decisions of this court. In addition to the *Alpha Cement* case already cited reference is had to the following:

Ozark Pipe Line Corp. v. Monier, 266 U. S. 555;

New York Tel. v. Knight, 192 U. S. 21;

Cooney v. Mountain States Telephone Co., 294 U. S. 384;

Puget Sound Stevedoring Co. v. Tax Commission, 302 U. S. 90;

Anglo-Chilean Nitrate Corp. v. Alabama, 288 U. S. 218.

We do not consider it necessary to labor the point because the full exposition of the problem in the majority and minority opinions of the Circuit Court of Appeals amply demonstrates what every one connected with this case conceded, namely, that the majority opinion of the Circuit Court of Appeals is in conflict with the decided cases of this court. For that reason we have not filed a brief in support of the petition but instead refer to the majority and minority opinions of the lower court as indicating that the problem is of a type and of such importance to merit a review by this court.

We submit also that the Circuit Court of Appeals decided an important question of local law contrary to the applicable decisions of the Supreme Court of Errors of Connecticut. In *State v. Stoddard*, 120 Conn. 623, 13 Atl. (2d) 753 (1940), the court held that an executive officer could not constitutionally be vested by statute with the power to make regulations unless the statute set up standards or principles to guide him in exercising his delegated power. That decision was approved and applied in *Connecticut Baptist Convention v. McCarthy*, 128 Conn. 501, 25 Atl. (2d) 656 (1942). The majority opinion of the Circuit Court of Appeals refused to follow these decisions of the Supreme Court of Errors, stating "we do not believe it intends to adopt a peculiar local rule." We submit that this constitutional question, having been twice decided in recent years in carefully considered opinions of the highest court of Connecticut, was a matter of established local law which the Circuit Court of Appeals was bound to follow. Because it failed to follow the local law, we submit we have an additional reason why this court should exercise its discretion and grant the writ.

WHEREFORE your petitioner respectfully prays that a writ of certiorari be issued out of and under the seal of

this Honorable Court directed to the Circuit Court of Appeals for the Second Circuit commanding that Court to certify and to send to this Court for its review and determination on a day certain to be therein named, a transcript of the record and proceedings herein; and that the decree of the Circuit Court of Appeals for the Second Circuit be reversed by this Honorable Court and your petitioner have such other and further relief in the premises as to this Honorable Court may seem meet and just.

PETITIONER,

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APPENDIX.

Section 418c, 1935 Supplement to the General Statutes:

Sec. 418c. Imposition of tax. Every mutual savings bank, savings and loan association and building and loan association doing business in this state, and every other corporation or association carrying on business in this state which is required to report to the collector of internal revenue for the district in which such corporation or association has its principal place of business for the purpose of assessment, collection and payment of an income tax, except (1) insurance companies, (2) companies principally engaged in the transportation and communication business and subject to the gross earnings taxes under chapters 70, 71 and 72, (3) companies principally engaged in manufacturing, selling or distributing gas, electricity or water and subject to the gross earnings tax imposed under chapter 73 and (4) companies all of whose properties in this state are operated by companies subject to taxation under chapters 70, 71, 72 and 73, shall pay, annually, a tax or excise upon its franchise for the privilege of carrying on or doing business within the state, such tax to be measured by the entire net income as herein defined received by such corporation or association from business transacted within the state during the income year and to be assessed at the rate of two per cent; provided in no case shall the tax be less than the minimum tax as computed under section 421c and provided, when any company taxable under chapter 71 shall engage in any business in this state other than the carrying of passengers for hire in common carrier motor vehicles, such company shall be subject to a tax of two per cent measured by that portion of its total net income derived from such business but shall not be subject to the minimum tax computed under sec-

tion 421c. Notwithstanding any other provisions of this chapter, any mutual savings bank owning, at the end of the income year, real estate acquired for debt having an assessed valuation of ten per cent or more of its total assets shall, during the calendar years 1936 and 1937, be subject to the lesser of (1) the tax imposed by this chapter and (2) the tax imposed by chapter 68 as amended by section 355b of the 1933 supplement.

Section 419c, 1935 Supplement to the General Statutes:

~~Sec. 419c.~~ Deductions from gross income. In arriving at net income as defined in section 417c whether or not the taxpayer is taxable under the federal corporation net income tax, there shall be deducted from gross income all items deductible under the federal corporation net income tax law effective and in force on the last day of the income year, except (1) federal taxes on income or profits, losses of prior years, interest received from federal, state and local government securities and specific exemptions, if any such deductions shall be allowed by the federal government and (2) interest and rent paid during the income year.

Section 420c, 1935 Supplement to the General Statutes:

~~Sec. 420c.~~ Allocation of net income. If the trade or business of the taxpayer shall be carried on partly without the state, the business tax shall be imposed on a base which reasonably represents the proportion of the trade or business carried on within the state. The allocation of the base of the tax measured by net income shall be made on the following basis: (1) Interest, dividends, royalties and gains from sales of intangible assets, less related expenses, when received by a company having its principal place of business within the state, shall be allocated to the state and, when received by a company

having its principal place of business without the state, shall be allocated without the state; provided, when it can be clearly established that such income is received in connection with business within the state, such income shall be allocated to the state without regard to the location of the principal place of business of the taxpayer, and a similar rule shall apply to such income received in connection with business without the state;

(2) gains from sales or rentals of tangible capital assets held, owned or used in connection with the trade or business of the taxpayer but not for sale or for rent in the regular course of business shall be allocated to the state if the property sold or rented be situated in the state prior to the sale or during the rental thereof, otherwise such gains shall be allocated outside the state;

(3) net income of the above classes having been separately allocated and deducted as above provided, the remainder of the net income of the taxpayer shall be allocated and apportioned as follows: (a) Such income, when derived from business other than the manufacture, sale or use of tangible personal or real property, shall be specifically allocated within and without the state under rules and regulations of the tax commissioner; (b) when derived from the manufacture, sale or use of tangible personal or real property, the portion thereof attributable to business within the state shall be determined by means of an allocation fraction to be computed as the simple arithmetical mean of three fractions. The first of these fractions shall represent that part of the average monthly fair cash value of the total tangible property held and owned by the taxpayer during the income year which is held within the state, without deduction on account of any incumbrance thereon but excluding any property the income of which is separately allocated under the foregoing provisions of this chapter. The second frac-

tion shall represent the part of the total wages, salaries and other compensation to employees, paid by the taxpayer during the income year from offices, agencies or places of business within the state, provided all such payments shall be assigned to the office, agency or place of business of the taxpayer at which the employee chiefly works or from which he is sent out or with which he is chiefly connected. The third fraction shall represent the part of the taxpayer's gross receipts from sales or other sources during the income year, excluding any income which is specifically allocated under subdivisions (1) and (2) of this section, which is assignable to offices, agencies or places of business within the state, provided such receipts shall be assigned to that office, agency or place of business at or from which the transactions giving rise thereto are chiefly negotiated and executed.

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FILED

OCT 27 1944

CHARLES ELMORE CROPLEY
CLERK

BEFORE THE
Supreme Court of the United States

October Term, 1944

No. 62

SPECTOR MOTOR SERVICE, INC.,
Appellant,

v.

CHARLES M. McLAUGHLIN, TAX COMMISSIONER,
WALTER W. WALSH, SUBSTITUTED DEFENDANT,
Appellees.

**BRIEF OF SPECTOR MOTOR SERVICE, INC.;
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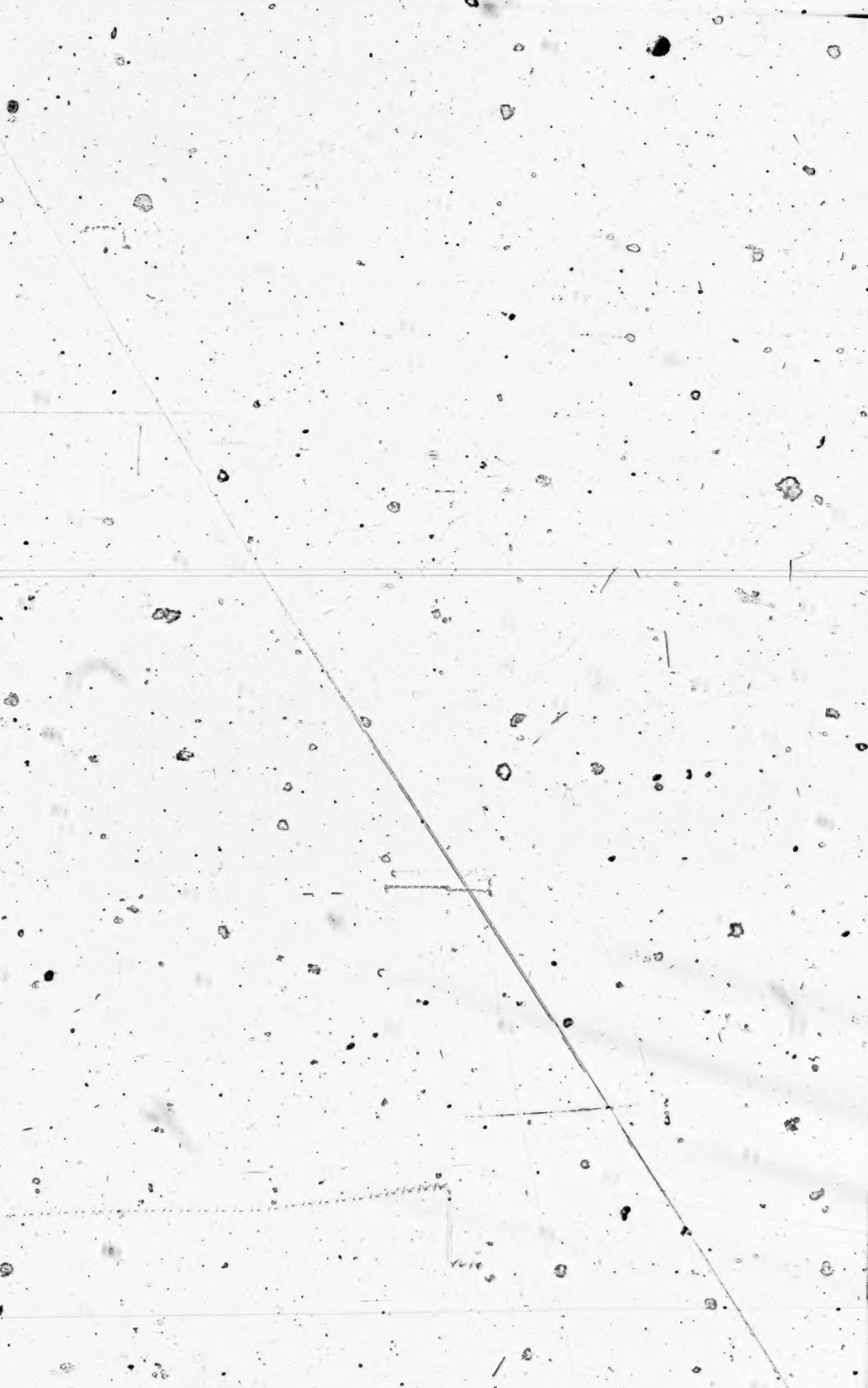
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BEFORE THE
Supreme Court of the United States

October Term, 1944

No. 62

SPECTOR MOTOR SERVICE, INC.,
Appellant,

v.

CHARLES M. McLAUGHLIN, TAX COMMISSIONER,
WALTER W. WALSH, SUBSTITUTED DEFENDANT,
Appellees.

**BRIEF OF SPECTOR MOTOR SERVICE, INC.,
APPELLANT**

Opinion of the Lower Court.

The opinion of the United States Circuit Court of Appeals (Second Circuit) was filed December 24, 1943 (decree January 20, 1944) and is found on page 109 of the transcript of record. The dissenting opinion appears at page 132 of the transcript of record. The case in the Circuit Court is reported in 139 Fed. (2d) 809 and in the District Court it is reported in 47 Fed. Supp. 671.

Jurisdictional Statement.

The statement as to jurisdiction required by Rules 12 and 27 (e) of this Court, was filed in connection with petition for certiorari, which petition was allowed May 22, 1944.

Statement of Case.

This action arose from a suit to enjoin the assessment of an excise tax by the defendant's State Tax Commissioner upon the plaintiff.

This case is an appeal by plaintiff, from the final decree of the United States Circuit Court of Appeals (Second Circuit), which decree reversed the District Court of the United States for the District of Connecticut, which decree was in favor of plaintiff.

The decision of the Circuit Court of Appeals upheld the validity of a tax statute of the State of Connecticut, which statute had been held invalid by the District Court.

The statute in question, as applied, levied an excise tax on the defined income of plaintiff, a foreign corporation, engaged as a common carrier by motor vehicle, exclusively in interstate commerce, in Connecticut and in eleven other states. The issues involve (a) taxable subject, (b) taxation of extraterritorial income, and (c) disallowance of expenses under "defined income".

Statutes Involved.

The statute involved is the Connecticut Corporation Business Tax Act of 1935 as amended, and particularly Section 418.c Cum. Supp. to General Statutes, and Section 176 f, effective July 1, 1937, which provisions, among others, are set forth in the appendix hereto.

In brief, the Connecticut Act provides that *every corporation* (with exceptions not here material) "*carrying on business in this State*" shall pay annually "*a tax or excise upon its franchise for the privilege of carrying on or doing business within the State*" of 2% of the defined income received "*from business transacted within the State during the income year*". In 1937, the Act was amended and made applicable, not only to corporations carrying on business in

Connecticut, but also, to those "*having the right to carry on business in this State*".

On corporations whose trade or business is carried on "partly without the State" the Act provides that the tax shall be imposed on the business "*which reasonably represents the proportion of the trade or business carried on within the State*". The statute purports to levy a tax on "net income", as defined, however, certain major expenses are not deductible, and for that reason, and to that extent, plaintiff contends that the tax has the effect of being a tax on "gross income".

When income is derived from the manufacture, sale or use of tangible personal or real property, the portion to be attributed to "*business within the State*" is determined by an allocation factor which is the simple arithmetical mean of three fractions:

- (1) Average monthly fair cash value of taxpayer's tangible property in Connecticut.

Total average monthly fair cash value of all taxpayer's tangible property.

- (2) Wages paid to employees from Connecticut offices
- Total wages paid all employees of taxpayer.

- (3) Gross receipts from transactions chiefly negotiated and executed in Connecticut.

Taxpayer's total gross receipts (excluding income from interest and dividends or capital gains).

As applied by the State Tax Commissioner, the tax is assessed against common carriers by motor vehicle which are exclusively engaged in interstate commerce, including foreign corporations and including foreign corporations having their business domicile outside of the state. As applied by the State Tax Commissioner, *interstate commerce* is deemed "*business carried on within the State*". The determination of that portion of the interstate commerce which is deemed "*business carried on within the*

state", is determined by taking all of the *gross revenue* from all interstate shipments outbound from Connecticut and the elimination of all of the gross revenues on all interstate shipments inbound to Connecticut.

Summary of Complaint.

The suit was commenced by complaint filed March 9, 1942 (T. 3). The complaint alleged that plaintiff's business in Connecticut was entirely interstate in character (Paragraph 9, T. 4) and that plaintiff is not authorized or qualified to carry on an intrastate business in Connecticut (Paragraph 10, T. 4).

Plaintiff alleged that the assessments and penalties were void as a burden and direct tax upon interstate commerce in violation of Article I, Section 8, and as applied, is in conflict with Article XIV, Section 1, of the amendments to the Constitution of the United States (Paragraph 16, T. 5).

The complaint, paragraph 16, alleged that the tax, as applied, was unconstitutional under the Constitution of Connecticut and that the statute did not authorize the application of the tax to plaintiff.

Upon recital of the amounts demanded, plaintiff prayed for an injunction restraining the collection of said assessments and penalties.

Rulings Below.

Upon a hearing on the issues by the District Court of the United States, Judge Joseph Smith held the tax to be unconstitutional, in the light of the decisions of this Court. In reversing the District Court, the Circuit Court of Appeals conceded that the tax, as applied, was unconstitutional, in the light of the decisions of this Court, but concluded that the trend of decisions by this Court were such that this Court would now uphold such a tax (T. 109).

Legislative History of Statute.

The statute in issue was based upon a report made by the Connecticut Temporary Tax Commission.¹

Judicial History of Statute.

As applied to foreign corporations engaged as common carriers exclusively in interstate commerce, this case appears to be the first and only time that the legality of the statute has been brought in issue. It does not appear that Connecticut has heretofore undertaken to apply the statute to other such carriers.

Issues involving allocation of business, similar to some of those raised herein, were dealt with in *Underwood v. Chamberlain*,^{1a} which case is cited and quoted herein. Issues involving delegation of powers, which issues are also raised herein, have been considered by Connecticut courts.^{1b}

Issues involving application of the statute to service industries, as distinguished from those engaged in manufacturing or selling have been dealt with.^{1c}

Most important, is the fact that the Connecticut law was patterned after a Massachusetts law which was declared invalid by this Court.^{1d}

¹Opinion of Circuit Court, T. 109, 112.

^{1a}*Underwood v. Chamberlain*, 94 Conn. 47, 55.

^{1b}*State v. Stoddard*, 126 Conn. 623, 13 Atl. (2d) 586.
Conn. Baptist Convention v. McCarthy, 128 Conn. 701, 25 Atl. (2d) 656.

^{1c}*Lynch v. Hotel Bond Co.* 117 Conn. 128, 131.
Ace High Dresses, Inc. v. J. C. Trucking Co. Inc., 122 Conn. 578, 581.

^{1d}*Alpha Portland Cement Co. v. Mass.* 268 U. S. 203, 69 ed. 916.

Summary of Evidence.

Appellant's Evidence.

Appellant presented two witnesses. Witness Fisher—direct examination. He is secretary, treasurer and general counsel of the appellant (T. 10). Appellant is a foreign corporation organized under the laws of Missouri and its principal business domicile is in the State of Illinois (T. 11 and 12). He described the history of the appellant (T. 12-14). A terminal was opened in New Britain, Connecticut, about 1934 (T. 15). Appellant qualified as a corporation in Connecticut because the land-lord who owned one of the terminals required it to do so (T. 15). Appellant never applied for authority to do intrastate business in Connecticut and its operating authority is *restricted against intrastate business* (T. 15, 16, Exhibits 3 and 4). It operates in 12 states (Exhibit 5) and holds a certificate from the Interstate Commerce Commission under Part II of the Interstate Commerce Act (T. 17, Exhibit 6). Various exhibits showing appellant's routes in the several states were introduced, which exhibits were numbered 5 and 7-1 to 7-8 (T. 17-20). The terminal at Bridgeport, Connecticut, was opened in 1934 (T. 20). He described the functions of the local terminals (T. 21). He presented a consolidated exhibit showing mileage by states (T. 21, 22, Exhibit 8). Appellant does not engage in intrastate commerce anywhere on its system (T. 12, 23). The total mileage of its routes in Connecticut is 300 miles (T. 20, Exhibit 7-1). The total mileage in all states is 7,977 miles, and the percentage of its mileage in Connecticut was 4.23% (T. 23, Exhibit 8). It maintains two local terminals in Connecticut and listed the employees and equipment maintained at the Connecticut terminals (T. 25-29, Exhibits 9 to 13). Appellant maintains a bank account in Connecticut which is used for deposits only, as all disbursements are made through and from its Chicago office (T. 27). The reason for maintaining a

separate subsidiary corporation, known as the Wallace Transportation Co., which owns the trucks, was based on reciprocity between the states in connection with the licensing of vehicles (T. 29-32). He introduced Exhibit 14, showing the various assessments levied by Connecticut (T. 32). Sixty percent of the cost of leasing equipment was allowed by Connecticut as an operating expense and forty percent was disallowed (T. 32).

Witness Fisher—cross examination. About 150 pieces of equipment are operated and at some time during the year, all of them would come to Connecticut (T. 32). Terminals are leased at New York, Bridgeport, New Britain, Chicago and St. Louis (T. 33). The principal place of business is Chicago and the largest terminal is at Chicago (T. 33). St. Louis is the legal domicile and a terminal is maintained there (T. 33). Other terminals are maintained at other places (T. 33). The terminal at New Britain is about 100 feet long, 50 feet wide and two stories high, and is used for dock space, and no storage business is done there (T. 33, 34). The Bridgeport terminal is about one-third of the size of the New Britain terminal (T. 34). The Bridgeport terminal is on a month to month rental agreement (T. 34). The New Britain terminal is leased for three or five years (T. 34). The rental at New Britain is \$300 or \$350 per month and at Bridgeport the rental is \$325 a month. The duties of the terminal manager at New Britain were described (T. 36-38). Some shipments are picked up from the plants by local cartage operators but large shipments are picked up by the over-the-road or line haul trucks (T. 38, 39). The New Britain payroll amounts to about \$1200 a week and it is paid by draft on the Chicago office, and payments on account of the Bridgeport terminal are handled the same way (T. 41, 42). Taxes on personal property are paid to the City of New Britain (T. 42). A bank account is kept at Bridgeport but the primary bank account is kept at Chicago; other accounts are kept at

St. Louis and New York (T. 42). The local bank accounts are merely transfer accounts (T. 42). All payments clear through the Halsted Exchange National Bank at Chicago (T. 43). The company maintains a centralized supply department and the local terminals have no authority to buy supplies (T. 43). Only incidental or petty cash matters are handled and paid at the local offices (T. 43, 44). Prepaid shipments out of Connecticut are handled through the Connecticut offices and "collect" shipments are handled at destination or through the Chicago office (T. 44, 45). About 50% of the shipments are prepaid (T. 45). Being common carriers they have no contracts with shippers (T. 45) and they have no discretion as to the freight which will be handled (T. 45, 46). Pick-up and delivery service in Connecticut is part of the line-haul movement (T. 46, 47). Pick-up and delivery service is paid for on the per 100 pounds basis (T. 47). They pay various state taxes in Missouri and Illinois. Special taxes are paid in New York, Maryland and New Jersey (T. 48). Income and personal property taxes are paid in Missouri. Through the subsidiary, the Wallace Company, personal property taxes are paid on equipment (T. 48). Personal property taxes are paid in Indiana (T. 49). Some taxes are paid in New York (T. 49). Unemployment taxes are paid in all states in which terminals are located and these taxes amount to about \$2500 a month, of which about \$1000 per year is paid in Connecticut (T. 50). A franchise tax is paid in Illinois and Missouri. A franchise tax (other than the tax here involved) is paid in Connecticut (T. 50, 51).

Redirect examination. Gasoline is purchased in Connecticut but the tax is paid by the subsidiary, the Wallace Company (T. 51).

Witness Fisher recalled. Exhibit 16 shows the expenses paid by the Wallace Company and they included shop salaries and maintenance, and the drivers for about 5 local cartage drivers used in Chicago (T. 68, 69). All of the

trucks owned by the subsidiary, the Wallace Transportation Company, are used by appellant (T. 68). The officers of appellant do not draw salaries as officers in the Wallace Company (T. 69). Appellant's rates are based on door-to-door delivery, and local cartage operations are included in the line-haul rates (T. 69).

Witness Arnold—direct examination. He is an accountant. Figures were shown for seven months of 1938, because, in that year, they changed from a fiscal to a calendar year (T. 54). Based on the method of taxation, as applied by Connecticut, the witness showed the result of the tax, if applied by other states (T. 55, 56, Exhibit 15). The expenses of the Wallace Transport Company (the subsidiary) were shown to have all been in the nature of actual and direct operating expenses, all of which were indirectly borne by the appellant (T. 57, 58).

Cross examination. In 1940, 34% of all shipments originated in Connecticut and in 1939, 42% (T. 60). Under Interstate Commerce Commission's accounting rules, "purchased transportation" is a deductible expense (T. 61). The Connecticut tax is, in effect, a tax on gross income because certain expenses are not allowed (T. 62). In connection with the trucks secured from the Wallace Company, appellant pays the drivers (T. 62). Apart from trucks secured through the Wallace Company, appellant employs from 40 to 50 owner-drivers (T. 63).

Redirect examination. Administrative Ruling No. 4 of the Interstate Commerce Commission requires appellant to employ and pay the drivers and the union contract likewise, makes them employees of the appellant (T. 64).

Recross examination. Corporation taxes are paid in Missouri and Illinois and a franchise tax in Connecticut (T. 65).

An occupancy tax is paid in New York City (T. 65). A franchise tax is paid in Illinois (T. 66). A corporation tax of \$75 is paid in Missouri (T. 66).

Re-redirect examination. Unemployment taxes are paid in Massachusetts, Connecticut, New York, Illinois, Missouri and Rhode Island and these taxes amount to between \$2,000 and \$2,500 per month (T. 66, 67).

Appellees' Evidence.

Appellees' evidence consisted of the testimony of three witnesses.

Mr. DiCicco was Tax Examiner for the State and made field audits. He inspected the books of the appellant and made the determinations of the amounts of appellant's gross business, which he found to have been "attributable to Connecticut" (T. 70, 72). Of the business which was determined to have originated in Connecticut, substantially 50% of the freight charges were collected outside of Connecticut (T. 72, 73). In allocating business to Connecticut, *he did not take into consideration the mileage which appellant operated in Connecticut* (T. 73). His authority for the use of the allocation fraction applied is Section 356 e of the 1939 Supplement to the General Statute (T. 74). He concluded that appellant was engaged in a business involving the "manufacture, sale, or use of tangible, personal or real property" (T. 75). If appellant was not engaged in such a business the allocation would be independently determined by the Tax Commissioner (T. 75).

Witness Steege was Corporation Director in the Corporation Division of the State Tax Department (T. 76). He allowed 60% of appellant's "purchased transportation" expenses as a business expense and disallowed 40% as "rent" (T. 76). He stated that no other state disallowed rental payments and for that reason, it was necessary for his Department to establish some definite application of

the term "rent" (T. 76). He made a study of the use of trucks by a large chain store company, and arrived at the 40-60 ratio (T. 76, 77). The carriers studied by him, hauled for the A & P Tea Company and are contract carriers, however he would not agree that they were relatively short-haul carriers (T. 77, 78). The portion of the statute which prohibits deductions of "rent" is Section 419 c, 1935 Cum. Supp. (T. 78). There is nothing in that section fixing the percentage and the percentage was based on a ruling of the department (T. 78, 79). In making the 40-60 allocation, he undertook to distinguish between the use of a piece of equipment and other normal expenses incurred in operation of equipment (T. 79). The 40-60 ratio was adopted in 1936, and an opinion was secured from the Attorney General in 1939 (T. 79, 80, Exhibit 19).

Witness Rau is office manager of the New Britain Rationing Board, a Division of the Office of Price Administration (T. 87). He introduced appellees' Exhibits A and B, which exhibits referred to appellant's application for tires, and the object of the exhibits was to show that appellant did business in Connecticut (T. 87-94).

EXHIBITS.

Appellant's Exhibits	Identified	In Evidence
1	T. 9	T. 9
2	T. 9	T. 9
3	T. 10	T. 10
4	T. 10	T. 10
5	T. 16	T. 16
6	T. 17	T. 17
7-1 to 7-8	T. 19	T. 19
8	T. 22	T. 22
9	T. 24	T. 24
10	T. 25	T. 25
11	T. 25	T. 25
12	T. 29	T. 29
13	T. 29	T. 29
14	T. 32	T. 32
15	T. 54	T. 54
16	T. 57	T. 57
17	T. 73	T. 73
18	T. 73	T. 73
19	T. 80	T. 80
Appellees' Exhibits		
A	T. 93	T. 93, 94
B	T. 93	T. 93, 94

Specifications of Errors.

1. The Circuit Court of Appeals erred in disregarding the controlling decisions of this Court.

2. The Circuit Court of Appeals erred in holding that the income of appellant is, under the facts of the case, a taxable subject, under the Commerce Clause, Article 1, Section 8 of the Constitution of the United States.

3. The Circuit Court of Appeals erred in failing to hold the tax, as applied to extraterritorial income, invalid under both the Commerce Clause and the 14th Amendment.

4. The Circuit Court of Appeals erred in failing to hold the tax, as applied to defined income, inequitable and invalid under both the Commerce Clause and the 14th Amendment, to the Constitution of the United States.

5. The Circuit Court of Appeals erred in failing to hold that the statute was not applicable to appellants.

6. The Circuit Court of Appeals erred in failing to hold that the statute was invalid under the Constitution of the State of Connecticut, by reason of unconstitutional delegation of powers.

Summary of Argument.

Introductory.

Determination of "defined income" and tax under the formula adopted by the Tax Commissioner, exemplified.

The case does not involve any element of failure of interstate commerce to bear a reasonable share of the general tax burden.

The distinction between transportation and manufacturing is an important factor in considering the practical effect of tax statutes.

Appellant's business is typical of the motor carrier industry.

The motor carrier industry bears its fair share of taxation.

Congress has repeatedly shown its concern for a sound national transportation system by implementing the Commerce Clause.

Congress has acted in the light of controlling decisions of this Court on tax matters involving transportation, and those decisions are in effect, part of the Interstate Commerce Act.

Point 1

The State of Connecticut has imposed a tax which, as applied in this case, is aimed directly at interstate commerce, and thereby contravenes the Commerce Clause.

Point 2

The Act, as applied, subjects interstate commerce to multiple or cumulative taxes which impose a destructive burden on interstate commerce in contravention of the Commerce Clause.

Point 3

The State has discriminated against interstate commerce in contravention of the Commerce Clause and applied its statute so arbitrarily and capriciously as to deny plaintiff equal protection and due process of law.

Point 4

The State law is not applicable to plaintiff, but if so, as administered, it contravenes the Constitution of Connecticut.

Point 5

As construed by the defendant the statute violates the due process requirements of both Federal and State constitutions.

Point 6

The assessments are void, because, as made by the defendant, an officer of the Executive Department of the State Government acted in a legislative capacity.

Point 7

Penalties and interest should not be allowed, in cases involving good faith litigation.

ARGUMENT.

Introductory.

Plaintiff is a Missouri corporation, having its principal place of business in Illinois, and it is exclusively engaged as a motor carrier of property, and operates exclusively in the transportation of interstate commerce. It operates exclusively by virtue of a certificate of convenience and necessity issued by the Interstate Commerce Commission pursuant to Part II of the Interstate Commerce Act. It is not engaged in intrastate commerce in any state. It operates in interstate commerce to and from the states of Missouri, Illinois, Indiana, Pennsylvania, New Jersey, Massachusetts, New York, Rhode Island, Maryland, District of Columbia and Connecticut, and across the state of Ohio.

The Tax Formula.

Defendant purported to act under the provisions of the Connecticut Business Tax Act of 1935, as amended, the pertinent provisions of which are set forth in the appendix. The taxes immediately in issue involve the years 1936 to 1940, inclusive, and amount to \$7,795.50.¹⁶

As applied to the business of plaintiff, the formula used by the Tax Commissioner, produced the following fractions by which was determined the portion of plaintiff's business which was "*business within the State*" for the year 1940:

1. Tangible Property	.071479% of total
2. Salaries and Wages	.059896% of total
3. Receipts from transportation	.341149% of total
	<hr/>
	.472524

Dividing the sum of the three fractions (.472524) by the number of fractions (3) gives a factor of .157508 used to determine the portion of plaintiff's business found to be

¹⁶Opinion, District Court, T. 95 and Exhibit 18.

"business within the State" for 1940. The factor varied from .157508 to .461293, according to years, as shown by Ex. 17.

For 1940, plaintiff's gross receipts were \$1,723,510.65, of which, Connecticut says, \$587,973.59 arose in that State. Plaintiff's net income, as determined by Connecticut (certain expenses disallowed) was \$426,291.01, and the application of the factor .157508, to the net, as determined, produced an amount of \$67,304.24 as representing the "net profits arising in Connecticut, and to which was applied the tax of 2%, producing a tax liability, for that year, of \$1,346.08.²

The results produced under the Connecticut formula (certain expenses disallowed) for determining "net income", compares with net income, determined in accordance with the accounting requirements prescribed by the Interstate Commerce Commission, and as allowed in connection with Federal income taxes, as follows:

Year	Gross Receipts	Connecticut	Interstate
		Formula	Commerce
		Net Income	Commission's
			Formula
			Net Income
1940	\$1,723,510.65	\$426,291.01	\$10,505.86
1939	1,202,210.35	344,381.54	\$6,064.34
1938	432,087.39 (7 mos.)	101,375.19	111.39
	<hr/>	<hr/>	<hr/>
	\$3,357,808.39 ³	\$872,047.74 ⁴	\$56,687.59 ⁵

²Opinion of C. C. A.—Note 4—T. 113 and Ex. 17.

³Witness DeCicco, T. 71, 72, Ex. 15, 17 and 18, T.—

⁴Witness Arnold, T. 55, 56, Ex. 15, 17 and 18, T.—

⁵Witness Arnold, T. 55, 56, Ex. 15, 17 and 18, T.—

It will be observed that under true accounting, as prescribed by the Interstate Commerce Commission, the total earnings of plaintiff for the two years and 7 months, above shown, was \$56,621.15, or 1.7% of net profit on its gross business, whereas under the Connecticut basis for determining "net income" plaintiff is stated to have earned \$872,047.75, or 25.9% on its gross business.

The difference in "net income", as determined by the formula applied by Connecticut, and actual net income, produced by the accounting methods prescribed by the Interstate Commerce Commission, will represent, in part, the basis for argument with respect to burdens on interstate commerce under the commerce clause and denial of due process under the 14th Amendment.

As determined by Connecticut, the volume of business allocated to Connecticut is based on the gross revenue from all interstate shipments originating in Connecticut or billed by plaintiff from Connecticut points, and such revenue is not allocated by Connecticut on the basis of either gross or net earned in Connecticut on a mileage or any other basis.

Plaintiff contends that the tax, as applied, is multiple and cumulative and would necessarily result in it, and all other carriers similarly situated, operating at an out-of-pocket loss, if such a tax were to be imposed by other states through which operations are conducted.

The General Tax Burden.

It has been said that there is a line of decisions by this Court which lays down the dogmatic rule that a state may not tax interstate commerce. Then it is said that the effect of the rule is such, that interstate commerce may escape its share of the burden of maintaining state governments.

⁶Witness De Cicco, T. 73.

We have considered the cases involved and asserted implications, but, as we understand them, have found no case which necessarily results in interstate commerce escaping a reasonable share of the tax burden, and, therefore, we do not here assert any claim for exception based on the alleged dogmatic rule.

We know of no interstate commerce or subject of commerce which may not meet the full force of state taxation, both prior and subsequent to its status as interstate commerce. We know of no commerce which has or can escape the burdens of property taxation on the facilities which are employed in the transportation of interstate commerce, or vehicle licenses, excise taxes on gas, oil, tires and parts, and taxes for the use of the highways.

We approach the issues here presented with the assumption that, under the prevailing concept of interstate commerce and matters which affect interstate commerce, the sweep may be so broad and the impact on the economy of the states so great as to foreclose an argument on behalf of dogmatic exemption from taxation. We can't lift the alleged precedents for exemption from their factual setting and impute to those cases results which we think are foreign to the facts and intent.⁸

Every case which we have examined seems to have an individual factual setting. The decisions of this Court, as we understand them, go to the proposition of condemning multiple, cumulative and discriminatory taxes, as distinguished from exemptions from taxation.

⁸"It is not the purpose of the commerce clause to relieve those engaged in interstate commerce from their just share of state tax burden even though it increases the cost of doing business. 'Even interstate commerce must pay its way'. *Postal Telegraph-Cable Co. v. Richmond*, 249 U. S. 252, 259, 39 S. Ct. 265, 63 L. Ed. 590". *Western Live Stock v. Bureau of Revenue*, 303 U. S. 250, 254, 58 S. Ct. 46, 82 L. Ed. 823.

Tax cases, as a whole, have been too numerous and too varied to be helpful in dealing with a particular problem such as we have here. We shall try, with care, not to disregard any class of tax cases, nor any trend in tax philosophy, if such exists.

Taxation of Transportation.

We respectfully submit, at the outset, that there are fundamental distinctions between the manufacture or mining and distribution of goods, or the merchandising of goods, on the one hand, and the transportation, or the furnishing of service of transportation, in interstate commerce, on the other hand, and that these differences call for different considerations in connection with tax policies. While both may be interstate commerce, the tax incidence is so different, that a rule under which one class might be taxed and prosper, without directly and unduly burdening interstate commerce, if applied to transportation, would not only unduly burden interstate commerce, but would annihilate common carrier service of transportation for interstate commerce.

There is here presented for review, a type of tax law which does not stop with presenting an issue as to whether it unduly burdens interstate commerce, but goes to the issue as to whether *it has the capacity to annihilate the service of common carriers engaged in the transportation of interstate commerce.*

The record, in general, is fairly comprehensive as to factual material, however, for the sole purpose of illustrations, and consistent with the premises laid by the record, it seems desirable to refer to additional transportation material not of record in this case. The material referred to, will be reports prepared by the Interstate Commerce Commission and contained in published statements.

Appellant's Business is Typical.

There may arise the question as to whether plaintiff's business is normal or representative of the motor carrier industry. This question is answered by the reports compiled by the Interstate Commerce Commission, which show plaintiff's net profit experience as compared with the industry.⁹ These statistics indicate that the industry could no more stand the Connecticut tax burden than appellants can.

The Industry is Fully Taxed.

Some portions of the opinion of the Circuit Court of Appeals observed that railroads and motor carriers are competitive. From what the Court said, it might be inferred that it entertained to some extent, a feeling of necessity for a tax policy which would equalize the fortunes of those competitive industries. We meet that issue, and turn to the reports of the Interstate Commerce Commission for information bearing on the respective portions of the gross and net income of both railroad and motor carriers which are expended for taxes. These reports show that the motor carrier industry is more than fully taxed.¹⁰

⁹Figures taken from Interstate Commerce Commission reports on "Statistics of Class 'I' Motor Carriers of Property Engaged Preponderantly in Intercity Service."

National Statistics

Year.	Operating Income	Operating Expenses	Net Operating Revenues	% Net to Gross
1942	\$587,869,636	\$556,472,133	\$31,397,503	5.5%
1941	560,166,612	533,232,281	26,934,331	4.8%
1940	431,052,674	412,040,349	19,012,325	4.4%
1939	378,473,829	359,784,771	14,894,134	3.9%

(I.C.C. Statistics for Spector (appellant).)

1942	\$2,384,862 ^a	\$2,416,644	\$31,842 (D)	1.3% (D)
1941	2,478,984	2,434,068	44,916	1.8%
1940	1,724,955	1,712,804	12,151	0.7%
1939	1,204,390	1,157,962	46,580	3.8%

The Commerce Clause Has Been Implemented.

In numerous decisions of this Court, dealing with tax matters, reference is made to the broad powers of Congress to take appropriate action with respect to burdens on interstate commerce, as compared with the narrower jurisdiction of this Court. The observation of Judge Hand, of the Circuit Court (dissenting) is important in approaching these matters from the practical viewpoint. He said:

"they (the states) have representations in Congress which the nation has not in their legislatures"^{10a}

In many cases, this Court has held that the "commerce clause", standing alone, was sufficient to prevent the burdening of interstate commerce and in other cases it has held that the "commerce clause" must be implemented by Congressional action, before it becomes operative to prevent burdens on interstate commerce.

Year	Operating Income	Net Operating Revenue	Operating Taxes	% of Taxes to Gross	% of Taxes to Net
(Motor carriers of Property, omitting 000)					
1942	\$587,869.	\$31,397.	\$40,100.	6.8%	130.%
1941	560,166.	26,934.	40,231.	7.1%	150.%
1940	431,052.	19,012.	31,503.	7.3%	160.%
1939	378,473.	14,894.	26,636.	7.0%	180.%

(Motor carriers of Passengers, omitting 000)					
1942	\$251,192.	\$86,727.	\$18,722.	7.4%	23.%
1941	148,876.	28,955.	14,134.	9.5%	43.%
1940	114,741.	16,267.	11,606.	10.1%	72.%
1939	113,458.	18,821.	11,456.	10.1%	63.%

(Interstate Commerce Commission statistics for Class I Railroads, omitting 000)					
1942	\$7,465,822.	\$2,864,739.	\$248,230.	3.3%	8.8%
1941	5,346,639.	1,682,467.	223,937.	4.1%	13.9%
1940	4,296,600.	1,207,183.	214,914.	5.0%	17.9%
1939	3,995,004.	1,076,794.	236,946.	5.9%	26.3%

*This column interpolated.

^{10a}T. 134.

¹⁰Interstate Commerce Commission statistics for "Class I Motor Carriers" and for "Class I Railroads" (taken from the several reports for the years indicated).

We submit that in transportation, the "commerce clause" has been implemented by many acts of Congress, showing in no uncertain terms that interstate transportation was of such national concern that it shall be beyond the power of the states to destroy it.

In a number of decisions involving taxation of telegraph companies, this Court referred to the fact that Congress had enacted legislation evidencing its intention to secure and protect the availability of such instrumentalities.¹¹

In tax cases involving pipe lines, this Court referred to Federal regulation and tariffs published with the Interstate Commerce Commission, to distinguish interstate commerce from intrastate business to prevent the burdening of the former.¹² In another pipe line case involving state requirements for the extension of pipe lines, this Court referred to the fact that extensions were subject to the issuance of certificates of convenience and necessity by the Federal Power Commission, and could not be required by a state.¹³

In railroad cases the protective arm of Federal policy has served as a reminder that burdensome capital expenditures might not be required of interstate carriers without

¹¹The Pensacola Teleg. Co. v. The Western Union Teleg. Co. 96 U. S. 1, 24 L. Ed. 708.

Western Union Teleg. Co. v. Texas, 105 U. S. 460, 26 L. Ed. 1067.

Western Union Teleg. Co. v. Mass., 125 U. S. 530, 31 L. Ed. 790.

Ratterman v. Western Union Teleg. Co., 127 U. S. 411, 32 L. Ed. 229.

Leloup v. Port of Mobile, 127 U. S. 640, 32 L. Ed. 311.

Western Union v. Seay, 132 U. S. 472, 33 L. Ed. 409.

Williams v. Talledega, 226 U. S. 404, 57 L. Ed. 275.

¹²Eureka Pipe Line v. Hallanan, 257 U. S. 265, 66 L. Ed. 227.

¹³Ill. Nat. Gas Co. v. Central Ill. Public Ser. Co., 314 U. S. 498, 86 L. Ed. 371.

approval of the Interstate Commerce Commission.¹⁴ Since the Shreveport Case¹⁵ and the Transportation Act of 1920¹⁶, states may not pursue an intrastate rate policy which burdens interstate commerce¹⁷. By numerous decisions under the Safety Acts, this Court has broadly construed the intent of Congress to occupy those fields and exclude the states from burdening interstate commerce, regardless of the fact that Congress had not specifically itemized each and every device involved.¹⁸ Radio has been recognized and protected as interstate commerce, by both Congress and this Court.¹⁹

With respect to highways, Congress has, through the Federal Aid Acts, not only become interested in interstate commerce but it has also acquired a huge financial interest in interstate highways.²⁰ In *Bush v. Maloy*, this Court said:

"The Federal Aid legislation is of significance, not because of the aid given by the United States for the construction of particular highways, but because those acts make clear the purpose of Congress that state highways shall be open to interstate commerce."

¹⁴Railroad Com. v. Southern P. Co., 264 U. S. 331, 68 L. Ed. 713.

I. C. C. v. Los Angeles, 280 U. S. 52, 74 L. Ed. 163.

¹⁵Houston, E. & W. T. R. Co. v. U. S. (Shreveport case), 234 U. S. 342, 58 L. Ed. 1341.

¹⁶Interstate Commerce Act, Sec. 13(4).

¹⁷49 U. S. C. A. 13(4) and cases cited.

¹⁸Erie R. Co. v. N. Y., 233 U. S. 671, 58 L. Ed. 1149.

Northern P. R. Co. v. Washington, 222 U. S. 370, 56 L. Ed. 237.

Napier v. A. C. L. Ry. Co., 272 U. S. 605, 71 L. Ed. 432.

¹⁹Fisher's Blend Station v. Tax Com. 297 U. S. 650, 80 L. Ed. 956.

²⁰Bush v. Maloy, 267 U. S. 317, 69 L. Ed. 627.

Buck v. Kuykendall, 267 U. S. 307, 69 L. Ed. 623.

We do not contend that Congress has excluded the states from taxing the physical facilities of interstate commerce, but we do contend that Congress has repeatedly expressed such concern for that commerce, that the states are not free to pursue any policy which produces results inconsistent with the repeatedly declared policy of Congress.

There is no rule that we know of, which establishes legislative standards or patterns for Congressional action whereby interstate commerce is protected by implication, as distinguished from specific action, nor is there any rate for determination of the efficacy of the commerce clause, standing alone.

Every time Congress has acted with respect to interstate commerce, it has been to relieve that commerce of some burden. To recognize that Congress had expressed itself so often and in so many ways, all for the protection of interstate commerce, and at the same time view the states as being free to employ an unrestricted and unrestrained tax policy, which has the capacity for injury to interstate commerce, far in excess of the matters upon which Congress has specifically acted, is hardly logical.

The Decisions of This Court, Are In Effect, Part of the Interstate Commerce Act.

The decisions of this Court, under the "commerce clause" alone, have made it unnecessary for Congress to enact further legislation dealing with the subject of taxation on the gross revenues of carriers engaged in interstate commerce, and Congress has acted in the light of those decisions.

In connection with the Motor Carrier Act of 1935, Congress enacted a declaration of national transportation pol-

icy, and, in 1940, that policy was reenacted in connection with the entire Interstate Commerce Act.²¹

When the Motor Carrier Act, 1935, was enacted the states feared that their right to tax for the use of highways within the respective states might be jeopardized. To meet that point, raised by the states, Congress wrote into the law a provision disclaiming any intention to interfere with the "powers of taxation of the several states" (Sec. 202(b)). The only important tax issues, then confronting the motor carrier industry, were taxes for the use of highways, which this Court had repeatedly held to be within the power of the states.

Taxation of the unapportioned revenues of carriers, and of apportioned revenues from interstate commerce (unless levied as in lieu taxes) had long been foreclosed by the decisions of this Court, and were recognized as not being within the "powers of taxation of the several states". Presumably, Congress, in enacting Sec. 202(b) of the Motor

²¹"National Transportation Policy.

It is hereby declared to be the national transportation policy of the Congress to provide for fair and impartial regulation of all modes of transportation subject to the provisions of this Act, so administered as to recognize and preserve the inherent advantages of each; to promote safe, adequate, economical and efficient service and foster sound economic conditions in transportation and among the several carriers; to encourage the establishment and maintenance of reasonable charges for transportation services, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices; to cooperate with the several States and the duly authorized officials thereof; and to encourage fair wages and equitable working conditions;—all to the end of developing, coordinating and preserving a national transportation system by water, highway, and rail, as well as other means, adequate to meet the needs of the commerce of the United States, of the Postal Service, and of the national defense. All of the provisions of this Act shall be administered and enforced with a view to carrying out the above declaration of policy." 49 U. S. C. A. at page 4 of supplement.

Carrier Act, acted in the light of the decisions of this Court, as they stood at that time, with respect to transportation agencies engaged in interstate commerce. To that extent, the then controlling decisions of this Court, and the Acts of Congress, are inter-related as to transportation. It would appear to be inappropriate to permit the states to now adopt a new policy, at variance with the prior decisions of this Court and upon which Congress must have relied.^{21a}

In this case, no goods are made or sold by plaintiff, no transactions are negotiated or consummated, no titles pass, both consignee and consignor may be non-residents. It does not follow from the service of transportation, that any portion of the charges for transportation on shipments originating in Connecticut, are paid for by any one in that state, or that the goods were even manufactured or sold in Connecticut. The service rendered by plaintiff and the charges therefor, are regulated by federal statutes. The relationship between a common carrier and a shipper are not private contracts in the normal concept of contracts.

If the few states, in which the nation's great ports are located, can claim that traffic, which a common carrier transports, to or from the interior, was business done "in the state", they certainly could levy a tribute on the hinterland.

Plainly the tax, in this case, as applied, is levied on the privilege of engaging in interstate commerce.

^{21a}See Ill. N. Gas Co. v. Cent. Ill. P. S. C., 314 U. S. 498, 86 L. Ed. 371, and particularly note (1) in the opinion.

POINT 1.

THE STATE OF CONNECTICUT HAS IMPOSED A TAX WHICH, AS APPLIED IN THIS CASE, IS AIMED DIRECTLY AT INTERSTATE COMMERCE, AND THEREBY CONTRAVENES THE COMMERCE CLAUSE.

We submit that the Connecticut law is invalid tested by every principle of taxation which this Court has ever considered, including dissenting opinions. True, in some instances, there have been strong expressions with respect to the powers of the states, in the absence of federal action, but in none of those cases was there a showing that the tax involved would destroy as distinguished from burdening commerce.

Plaintiff is certificated under an Act of Congress, and all its rates and charges are regulated by the Interstate Commerce Commission. It does not and cannot engage in intrastate transportation in Connecticut, and it is not engaged in any other kind of business in Connecticut or elsewhere. It pays, in numerous states, all applicable taxes on property, use taxes, excise taxes, vehicle licenses, occupancy taxes, corporate taxes, social security, etc.²² It and its subsidiary company, which owns most of the trucks, pay in taxes very substantial amounts²³ and pay in proportion

²²Witness Arnold, T. 48-51, 57, 64-66.

²³License and taxes paid by Wallace T. Co. \$13,144 Ex. 16,

T.—

Taxes paid by Spector \$18,269.20 for year 1940, as shown by annual report filed with Interstate Commerce Commission. Exhibit 16 shows that the Wallace Co., paid under Road Expenses-Tolls, Etc., \$10,987.45, however the amount represented by tolls is not segregated. Exhibit 16 also shows that Wallace Co., paid for motor fuel \$141,962.72 which amount includes taxes on gasoline, which are not segregated, but would have been segregated had the amounts been paid directly by Spector. If the gasoline tax be estimated at 30% of the wholesale cost the tax would amount to approximately \$40,000. The taxes paid by the contractors who perform pick-up and delivery service and by the owner-drivers are not segregated, nor are any figures available of record from which any calculations might be made.

to gross revenues as much as the states impose on other carriers of its kind.²⁴

This Court has on several occasions approved in lieu taxes, measured by income or other basis but the basis employed was merely the measure of the tax to be imposed on a taxable subject, such as tangible property,²⁵ but this is not an in-lieu tax.

The tax is not a corporate franchise tax on a domestic corporation engaged partially in intrastate commerce because plaintiff is not a domestic corporation. Therefore, the tax cannot be sustained on the domestic corporation basis and is distinguishable from such cases which have been approved by this Court²⁶ and disapproved when the

²⁴See Note 10.

²⁵Western Union T. Co. v. Mass, 125 U. S. 530, 31 L. Ed. 790.
Postal Teleg. Cable Co. v. Adams, 155 U. S. 688, 39 L. Ed.

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U. S. Exp. Co. v. Minn., 223 U. S. 335, 58 L. Ed. 461.
Cudahy Packing Co. v. Minn., 246 U. S. 450, 62 L. Ed. 827.
Pullman Co. v. Richardson, 261 U. S. 330, 67 L. Ed. 682.
A. C. L. R. Co. v. Doughton, 262 U. S. 413, 67 L. Ed. 1051.
Ith. Central R. Co. v. Minn. 309 U. S. 157, 84 L. Ed. 670

²⁶B. & O. R. Co. v. Md. 21 Wall. 456, 22 L. Ed. 678.
K. C. Ft. T. & S. M. R. Co. v. Botkin, 240 U. S. 227, 60 L. Ed.

617.

Matson Nav. Co. v. State Bd. of Equalization, 297 U. S. 441, 80 L. Ed. 791.

Northwest Air Lines, Inc. v. Minn., — U. S. —, 88 L. Ed. 956.

domestic corporation was exclusively engaged in interstate commerce.²⁷

The tax is not a tax on a foreign corporation for the privilege of doing intrastate business within the state because the plaintiff is not engaged in intrastate commerce. Therefore, it cannot be justified on that ground and is distinguishable from cases which have been approved by this Court.²⁸ In this connection it should be pointed out that the absence of local intrastate business is not a matter of choice resting with plaintiff, because Connecticut law requires proof of public convenience and necessity before a carrier may engage in intrastate operations.²⁹ The mere qualification to do business in the state as a foreign corporation, for the purpose of executing a lease agreement, has no relation to the business of conducting intrastate transportation. The learned Court of Appeals seems to have misconceived the facts in connection with this matter. There is no possible relationship between licensing a truck and obtaining a certificate of convenience and necessity to engage in interstate commerce for hire. Even if plaintiff

²⁷Phila. & Southern Mail Steamship Co. v. Pa. 122 U. S. 326, 30 L. Ed. 1200.

Puget Sound Stevedoring Co. v. Tax Comm., 302 U. S. 90, 82 L. Ed. 68.

Gwin, White & Prince v. Henneford, 305 U. S. 434, 83 L. Ed. 272.

²⁸Pullman Palace Car Co. v. Pa. 141 U. S. 18, 35 L. Ed. 613, modified in Union Tank Car Co. v. Wright, 249 U. S. 275, 63 L. Ed. 602.

Maine v. Grand Trunk Ry. 142 U. S. 217, 35 L. Ed. 994.

St. L. S. W. R. Co. v. Ark. 235 U. S. 350, 59 L. Ed. 265.

Pullman Co. v. Richardson, 261 U. S. 330, 67 L. Ed. 682.

Wis. v. J. C. Penny Co. 311 U. S. 435, 85 L. Ed. 267.

²⁹Sec. 577c General Statutes of Connecticut, 1935 Supplement.

could engage in intrastate commerce, did not do so, and the tax could not be applied.³⁰

The tax is not, and does not purport to be, a state tax for the use of the highways, such as (when reasonable) have been approved by this Court³¹ and disapproved when not properly apportioned.³² In this connection the Court of Appeals intimates that possibly the tax would be valid if it were considered to be a tax for the use of highways. However, it is clear that the tax is neither a tax for the use of highways, nor is it a tax having any relationship to transportation of any kind. It is a general business tax imposed on all corporations except railroads and certain other public utilities. The courts cannot supply a special basis for the tax, if the Legislature did not do so.

This brings us to the inquiry as to what, if any, service of government or benefit of government, the State of Connecticut confers on the interstate business of plaintiff for which it may properly exact an additional tax from plaintiff. This Court said in the case of *Wisconsin v. J. C. Penny Co.*:³³

"The simple but controlling question is whether the state has given anything for which it can ask return."

³⁰*Ozark Pipe Line Corp. v. Monier*, 266 U. S. 555, 69 L. Ed. 439.

Anglo Chilean Nitrate v. Ala. 288 U. S. 218, 77 L. Ed. 710.

³¹*Dixie Ohio Exp. Co. v. State Rev. Com.*, 306 U. S. 72, 83 L. Ed. 495.

Clark v. Paul Gray, 306 U. S. 583, 83 L. Ed. 1001.

Interstate Buses v. Blodgett, 276 U. S. 245, 72 L. Ed. 551.

Clark v. Poor, 274 U. S. 554, 71 L. Ed. 1199.

Kane v. New Jersey, 242 U. S. 160, 61 L. Ed. 222.

³²*McCarroll v. Dixie Greyhound Lines*, 309 U. S. 176, 84 L. Ed. 683.

³³*Wisconsin v. J. C. Penny Co.*, 311 U. S. 435, 85 L. Ed. 267.

If we turn to the primary evidence, the statute itself, we find that the tax is exacted "upon its franchise for the privilege of carrying on or doing business within the state". Plaintiff is exclusively engaged in interstate transportation, and that is a business with respect to which the state may neither grant nor withhold the privilege.³⁴ The privilege of engaging in interstate commerce and the duty to continue to engage in such operations and to continue to render reasonably adequate service does not arise under the laws of any state, but arises solely by virtue of an act of Congress and a certificate of convenience and necessity, under Part II of the Interstate Commerce Act.³⁵ Connecticut specifically withheld from plaintiff, the privilege of engaging in intrastate commerce.^{35a}

This Court has consistently held that the property of foreign corporations engaged as carriers in interstate commerce may be taxed by the state in which the property is located,³⁶ but this Court has also consistently held that the gross receipts, *as such*, of foreign corporations engaged as

³⁴Buck v. Kuykendall, 267 U. S. 307, 69 L. Ed. 623.

Bush v. Maloy, 267 U. S. 317, 69 L. Ed. 627.

³⁵49 U. S. C. A. 306, 307

^{35a}Exhibits 3 and 4.

³⁶Western Union T. Co. v. Mass. 125 U. S. 530, 31 L. Ed. 790.

Pullman Palace Car Co. v. Pa., 141 U. S. 18, 35 L. Ed. 613.

Cleveland, Cincinnati, Chicago & St. Louis Ry. v. Backus, 154 U. S. 439, 38 L. Ed. 1041.

Postal Teleg. Cable Co. v. Adams, 155 U. S. 688, 39 L. Ed. 311.

American Refrigerator Transit Co. v. Hall, 174 U. S. 70, 43 L. Ed. 899.

Union Refrigerator Transit Co. v. Lynch, 177 U. S. 149, 44 L. Ed. 708.

Pullman Co. v. Richardson, 261 U. S. 330, 67 L. Ed. 682.

A. C. L. R. Co. v. Doughton, 262 U. S. 413, 67 L. Ed. 1051.

Great Northern Ry. Co. v. Minn. 278 U. S. 503, 73 L. Ed. 477.

Ill. Central Co. v. Minn., 309 U. S. 157, 84 L. Ed. 670.

carriers in interstate commerce may not be taxed by a state, and this has been true regardless of whether the carrier's receipts were derived exclusively from interstate commerce or only a portion was derived from interstate commerce,³⁷ likewise the gross receipts from interstate commerce, of domestic corporations, may not be taxed.^{37a}

In a number of cases gross receipts or other bases, *properly allocated*, have been used and approved as the measure for taxes on real and personal property. But in those cases the tax was really against the property and not against the gross receipts and were sustained because they were in lieu taxes.³⁸ When the basis for taxation was inequitable or a unit value rule unduly reached extraterritorial values, the tax has been disapproved.³⁹

³⁷Fargo v. Stevens, 121 U. S. 230, 30 L. Ed. 888.
Ratterman v. Western Union T. Co. 127 U. S. 411, 32 L. Ed. 229.

Western Union v. Seay, 132 U. S. 472, 33 L. Ed. 409.
Meyer v. Wells Fargo & Co. 223 U. S. 298, 56 L. Ed. 445.
Fisher's Blend Station v. Tax Com. 297 U. S. 650, 80 L. Ed. 956.

^{37a}Galveston H. & S. A. R. Co. v. Texas, 210 U. S. 217, 52 L. Ed. 1031.

³⁸Western Union T. Co. v. Mass. 125 U. S. 530, 31 L. Ed. 790.
Pacific Exp. Co. v. Seibert, 142 U. S. 339, 35 L. Ed. 994.
Postal Teleg. Cable Co. v. Adams, 155 U. S. 688, 39 L. Ed. 311.

Wis. & M. R. Co. v. Powers, 191 U. S. 379, 48 L. Ed. 229.
U. S. Exp. Co. v. Minn. 223 U. S. 335, 56 L. Ed. 461.
Cudahy Packing Co. v. Minn. 246 U. S. 450, 62 L. Ed. 827.
Pullman Co. v. Richardson, 261 U. S. 390, 67 L. Ed. 682.
A. C. L. R. v. Doughton, 262 U. S. 413, 67 L. Ed. 1051.
Great Northern Ry. Co. v. Minn. 278 U. S. 503, 73 L. Ed. 477.
Ill. Central Co. v. Minn. 309 U. S. 157, 84 L. Ed. 670.

³⁹Fargo v. Hart, 193 U. S. 490, 48 L. Ed. 761.
Union Tank Line Co. v. Wright, 249 U. S. 275, 63 L. Ed. 602.
Wallace v. Hines, 253 U. S. 66, 64 L. Ed. 782.
New Jersey Bell Tel. Co. v. State Bd. of T. & A. 280 U. S. 338, 74 L. Ed. 463.

In some cases, tax laws with provisions broad enough to cover intrastate as well as interstate commerce, have been construed to apply to intrastate commerce only, in order to save their constitutionality,⁴⁰ and that could be done here.

A franchise tax may not be imposed on an instrumentality of interstate commerce even though it be also used for intrastate commerce.^{40a}

The facts in this case are clear and simple. Plaintiff is a foreign corporation, incorporated in Missouri and having its commercial domicile in Illinois. It is exclusively engaged in interstate commerce, and is not permitted to engage in intrastate commerce. It is subject to all normal taxes, and the additional tax imposed is not an in lieu tax and the statute itself states that it is for the privilege of engaging in business within the state. The only business engaged in, and the only business which the plaintiff can engage in, is interstate commerce.

The Connecticut Act was copied in statutory form, substantially as found in a prior Massachusetts Act. This Court found the Massachusetts law invalid in *Alpha Portland Cement Co. v. Massachusetts*, 268 U. S. 203, 69 L. ed. 917. In the *Alpha Cement Case*, there was no disallowance of expenses and inclusion of extraterritorial revenues, such as is involved in the Connecticut Act, as applied in this case. The Connecticut Act is invalid for the reasons stated in the *Alpha Cement case* and for the additional reasons just stated and which will be discussed under Point 2.

It is clear:

1. That the taxes levied are against a subject which is beyond the taxing power of the state.
2. The tax in no sense compensates for any privilege or protection afforded by the state.

⁴⁰*Pacific Exp. Co. v. Seibert*, 142 U. S. 339, 35 L. Ed. 1035.
⁴¹*St. Louis & S. W. R. Co. v. Ark.*, 235 U. S. 350, 59 L. Ed. 265.

^{40a}*Coorrey v. Mountain States Tel. & Tel. Co.* 294 U. S. 384, 79 L. Ed. 934.

POINT 2.

**THE STATE ACT, AS APPLIED, SUBJECTS INTER-
STATE COMMERCE TO MULTIPLE OR CUMULA-
TIVE TAXES WHICH IMPOSE A DESTRUCTIVE
BURDEN ON INTERSTATE COMMERCE IN CON-
TRAVENTION OF THE COMMERCE CLAUSE.**

The Connecticut statute purports to be a tax on "net income", however certain expenses are disallowed and to that extent it is not a net income tax and becomes a tax on gross income. It is necessary to examine the nature and quantity of the expense items which are disallowed, in order to appraise the actual effect of the law.

The disallowed items are "*interest and rent paid during the income year*".⁴¹ Plaintiff uses a large amount of equipment which it does not own. Most of the equipment used is obtained under contract with a wholly owned subsidiary corporation, the Wallace Transportation Company.⁴² Other equipment is obtained from so-called owner-operators, who perform over-the-road service, and a third group of facilities is obtained through contracts with local operators who perform pick-up and delivery service.

The consideration paid by plaintiff to the owners of the equipment used, under contracts, raises an important issue in determining the amount of plaintiff's "net" revenue which the state seeks to tax. The state law does not allow "rent" as a deductible expense and the state calls 40% of the payments for hired services, "rent". Therefore, it becomes necessary to examine plaintiff's arrangements with those from whom it secures equipment, for the purpose of determining whether the payments made therefor are properly denominated "rent".

⁴¹Sec. 419c—Quoted in appendix.

⁴²Witness Fisher T. 29, 30.

Where the services of local operators are engaged for pick-up and delivery work, such operators are compensated at so much per hundred pounds for the freight handled.⁴³ They own and license the equipment, furnish the driver, maintain the equipment, furnish the tires, oil and gasoline and for all practical purposes are independent contractors. Clearly, such arrangements are contracts for services and no part of their compensation is "rent".

Where owner-drivers are employed,⁴⁴ that is to say individuals who own their equipment and make their living by supplying over-the-road transportation service to carriers, such owner-drivers own the trucks, maintain them, supply the gasoline and oil and usually drive the vehicles themselves, although sometimes they employ and furnish drivers, and for all practical purposes are independent contractors.

This Court had occasion to consider the status of these so-called owner-drivers in the Rosenblum case.⁴⁵ This Court has held that a common carrier is free to engage the services of others in the performance of its obligations as a common carrier.⁴⁶ Clearly, no part of the compensation paid to owner-drivers is "rent", in the usual sense of the term.

We next come to the status of the arrangements between plaintiff and its subsidiary, the Wallace Company,⁴⁷ and where the drivers were placed on the payroll of the plaintiff. The Wallace Company did more than furnish trucks—

⁴³Witness Fisher, T. 47.

⁴⁴About 40 or 50 owner-drivers are used: Witness Arnold, T. 63.

⁴⁵U. S. v. Rosenblum, 315 U. S. 50, 86 L. Ed. 671.

⁴⁶Thompson v. U. S., — U. S. —, 88 L. Ed. 326.

St. Louis Drayage Co. v. L. & N. R. R. Co. 65 Fed. 39.

⁴⁷Witness Fisher, T. 25, 26.

Exhibit 16, T.—

it also furnish the gasoline, oil and tires, and maintained the trucks.⁴⁸ It also paid the taxes and licenses, and taxes on gasoline, which is one of the means by which states collect taxes for the use of highways.

The State Tax Commissioner or Auditor apparently realized that he was in some difficulty in denominating all of the payments made by plaintiff, for the services of its various types of contractors, as "rent". He allocated 60% of the amounts paid by plaintiff for the services contracted for, as an operating expense and assumed that 40% would represent "rent".⁴⁹

Examination of Exhibit 16 discloses that there was little if anything, in the account between plaintiff and Wallace which is rent as distinguished from 100% operating expenses.⁵⁰

The State appears not to have discovered, until the hearing before the District Court, that plaintiff employed and paid the drivers of the equipment furnished by the Wallace Company.⁵¹

Presumably, as the Court of Appeals pointed out, had the state been aware of the fact that plaintiff paid such drivers, all of the amounts paid to the Wallace Company would have been called "rent" and disallowed as expense. Under these circumstances, the amount of tax, which might be exacted by Connecticut, *would be increased more than 100% over the amounts here involved.*

The practice of augmenting the supply of transportation facilities by contracts, is not peculiar to plaintiff nor unusual in the motor carrier industry, as shown by the amount

⁴⁸Witness Arnold, T. 55-57.

Exhibit 16, T.—

⁴⁹Witness Steege, T. 75-80.

⁵⁰Witness Arnold, T. 56, 57.

Exhibit 16, T.—

⁵¹Witness Arnold, T. 62-63.

of "purchased transportation" reported to the Interstate Commerce Commission.⁵² Railroads, to a great extent, use equipment owned by other lines and also use equipment owned by non-carriers, who furnish tank cars and refrigerator cars.⁵³ No one has heretofore suggested that the amounts paid for this equipment was not a true operating expense. In the motor carrier industry the augmentation of transportation facilities by contract is termed "purchased transportation", under the accounting rules prescribed by the Interstate Commerce Commission.⁵⁴

To illustrate the importance of the item of purchased transportation in connection with the motor carrier industry, we turn to the reports of the Interstate Commerce Commission to show that "purchased transportation" and "leased vehicles" account for a large portion of the total vehicle miles and revenues of that portion of the industry which is engaged primarily in intercity operations.⁵⁵

⁵²See Note 55.

⁵³Pickard v. Pullman Southern Car Co. 117 U. S. 34, 29 L. Ed. 785.

Fargo v. Stevens, 121 U. S. 230, 30 L. Ed. 888.

American Refrigerator Transit Co. v. Hall, 174 U. S. 70, 43 L. Ed. 899.

Union Refrigerator Transit Co. v. Lynch, 177 U. S. 149, 44 L. Ed. 708.

Cudahy Packing Co. v. Minn. 246 U. S. 450, 62 L. Ed. 827.

Union Tank Line Co. v. Wright, 249 U. S. 275, 63 L. Ed. 602.

⁵⁴Witness Arnold, T. 61.

⁵⁵The following figures were taken from Interstate Commerce Commission statistics of Class I Motor Carriers of Property Engaged Preponderantly in Intercity Service for the year 1942:

Carriers operating with owned equipment and purchased transportation—gross revenues	\$274,516,619 (Table 48)
Carriers operating with principally owned equipment—gross revenues	\$247,482,818 (Table 4)
Mileage of owned vehicles	1,471,874,488
Mileage of leased vehicles	160,841,457
Mileage of "purchased transportation"	407,382,210

Recently the Circuit Court of Appeals (6th C.C.A.) had occasion to discuss purchased transportation and to consider the liability of common carriers using "purchased transportation" in connection with Social Security Taxes. It was held that the suppliers of purchased transportation were independent contractors and that the carriers were not liable for Social Security Taxes on the employees of the independent contractors.⁵⁶

It has been suggested that the exclusion of "rent" from deductible expenses is reasonable, because it equalizes the tax burden as between owners and lessors of property. Presumably the 40% of "rent" which the Tax Commissioner disallowed as a deductible item, was intended to represent the cost of operating the vehicle as distinguished from wages paid drivers. No reason was suggested why drivers' wages are an expense and mechanics' wages, taxes and gasoline, are "rent".

Here, the statute, as applied, with respect to "rent", instead of being an equalization factor becomes a major factor in discrimination. A carrier owning equipment could charge to expense all maintenance, parts, supplies, fuel, taxes, etc., whereas, a purchaser of services has 40% of such expenses denominated "rent" and excluded from expenses, under the Connecticut law, as applied. In long distance interstate transportation by truck, the costs of such items (exclusive of drivers) are more important than the purchase price of the truck.

We do not contend that the state law is bad simply because it does not exactly follow accounting procedure prescribed by the Interstate Commerce Commission, but we contend that it is bad because the Connecticut formula is so arbitrary in itself, that it unduly burdens interstate commerce in contravention of the commerce clause and

⁵⁶U. S. v. Mutual Trucking Co., 141 Fed. (2d) 655.

deprives plaintiff of the due process of law under the 14th Amendment.

In passing, it should be pointed out that there is no competition between the interstate commerce transported by plaintiff, and intrastate commerce carried on by any carrier in Connecticut, therefore there is no occasion to equalize any tax burdens which Connecticut may impose on its own citizens or commerce.

We have pointed out the foregoing facts to illustrate the error made by the State in calling this expense "rent", but we do not rest our case on terminology; we say that the state law is unconstitutional even if the payments are "rent": No state can strangle interstate commerce under any form of statute.

The state has relied very largely on the decision of this Court in a case upholding a tax on net *operating income*, in which deductions for "rent" were not allowed. *Atlantic Coast Line R. Co. v. Doughton*.⁵⁷ However, that case differed in important particulars from the issues here presented. In that case the tax was on the income from property. The "rent" which was disallowed was the rent paid for leased railroads, but the rent paid for "cars" was allowed. Rent, in comparatively nominal amounts, paid for the use of real property of a permanent nature is entirely different from compensation for transportation services and the use and maintenance of trucks and including the fuel, maintenance, etc. In the *Atlantic Coast Line Case*, the "rent" was in the nature of interest on capital, whereas here, the payments represent operating expenses. Those distinctions were carefully noted in that case. There the results did no violence to interstate commerce, but here the result is quite different. There the tax was apportioned to earnings in the state, whereas, here, the tax is not appor-

⁵⁷ *Atlantic C. L. R. Co. v. Doughton*, 262 U. S. 413, 67 L. ed. 1051.

tioned. There the companies were engaged in intrastate commerce, and here the plaintiff is engaged in interstate commerce.

By the process of disallowing 40% of the expenses for purchased transportation, Connecticut determined that plaintiff had a net income of \$425,291.01 in the year 1940, as against an actual net income, as determined by the accounting regulations of the Interstate Commerce Commission, of \$12,151.⁵⁸ Connecticut determined, under its formula, that plaintiff had a net income in 1940 of approximately 40 times the actual net income. Connecticut allocates as net income arising in Connecticut, an amount of \$67,304.24, as compared with an actual net earning of the company of \$12,151.00 for its entire system located in 12 states. Connecticut exacts a tax of 2% on the income as computed by its formula and as allocated to Connecticut, by its method, and claims, as a tax on the privilege of doing interstate business for the year 1940, \$1,346.08, which is actually 11% of the actual net earnings of plaintiff in all twelve states in which it operates.

If there is any theory upon which Connecticut can levy this tax, then every one of the twelve states through which plaintiff operates may levy a similar tax, and such multiple or cumulative tax would, to a mathematical certainty, cause the plaintiff corporation to be operated at an out of pocket loss from which there would be no escape.

⁵⁸Figures taken from Interstate Commerce Commission statistics for the year 1942:

	Operating Income	Operating Expenses	<i>Spector.</i> Net Operating Revenue	Purchased Transporta- tion*
1942	\$2,384,802	\$2,416,644	\$31,842 (D)	\$1,045,221
1941	2,478,984	2,434,068	44,916	1,391,308
1940	1,724,955	1,712,804	12,151	991,122
1939	1,204,590	1,157,962	46,580	537,183

*Included in "operating expenses" but shown separately for the purpose of illustrating the importance of the amount involved.

The tax levied by Connecticut is multiple and cumulative for two reasons: First, by disallowing expenses it is in the nature of a tax on gross; and secondly, the determination of income alleged to have been earned in the state, is not based on a formula which even approximates an accurate determination of business "in the state", if any interstate commerce is business "in the state".

Connecticut applies the tax to the total freight charge on all freight shipments originating in, or originally billed by plaintiff from a point in Connecticut, regardless of destination and without attempting to determine the portion of the through freight charges earned within the State of Connecticut.⁵⁹

Plaintiff's operations extend from the Atlantic Coast to the Mississippi River, a distance of a thousand miles. All of plaintiff's business out of Connecticut is necessarily long-haul business by reason of the limitations and restrictions imposed in plaintiff's certificate of convenience and necessity issued by the Interstate Commerce Commission.⁶⁰ As shown by Exhibit 5, plaintiff operates between an eastern area and a western area, but does not operate within either the eastern or western areas. In other words, plaintiff may not render local service between Connecticut and New York or between Connecticut and Massachusetts.⁶¹ The total mileage of plaintiff by states is: Connecticut 300; Massachusetts 406; New York 774; New Jersey 138; Pennsylvania 1382; Ohio 1210; Indiana 1166 and Illinois 1551.⁶² The total route mileage operated by plaintiff is 7,077 miles, of

⁵⁹Witness DeCicco, T. 73.

⁶⁰Spector Motor Service, Inc., 32 M. C. C. 443.

⁶¹Witness Fisher, T. 22.

⁶²Witness Fisher, T. 19, 20.

which only 4.23% is in Connecticut and 95.77% is in other states.⁶³

The State of Connecticut contends that for the year 1940 \$587,973.59 or 34% of plaintiff's gross revenues arose in Connecticut,⁶⁴ whereas plaintiff's mileage in Connecticut was only 4.23%. With the same mileage, the state claims as to other years that business up to about 50% of the gross originated in Connecticut. It is undisputed that the state has taken all of the revenue for all of the transportation from Connecticut clear through and across numerous states to destination. The fact that Connecticut does not include in its computations, revenues on freight terminated in Connecticut, by no means compensates for the inclusion of revenues earned over 7,077 miles of system lines, when only 4.23% of the mileage is in Connecticut. This Court has repeatedly condemned tax laws which are inequitable or which reach extraterritorially.⁶⁵

In the case of interstate carriers exclusively engaged in the handling of interstate commerce, there is no rule of law which differentiates between interstate traffic which originates and traffic which terminates in a state and which would subject one class to a tax burden not imposed on the other. The administrative application of such a distinction, as undertaken by Connecticut, must rest on nothing more than an appreciation of the weakness of their position with respect to any of the traffic. If Connecticut can tax traffic originating in Connecticut under the present act, then we know of nothing to prevent it from taxing traffic which also terminates in Connecticut, and likewise all other states could do the same.

⁶³Witness Fisher, T. 22, 23, and Exhibit 8, T.

⁶⁴Exhibit 17, T.

⁶⁵See Notes 39 and 70. *Hans Rees Sons v. North Carolina*, 283 U. S. 133, 75 L. ed. 904.

The Circuit Court of Appeals said with reference to cumulative and multiple taxation:

"It is objected that if Connecticut can levy this tax that all states through which plaintiff's trucks operate can levy a somewhat similar tax, and plaintiff will be burdened by the inequity of multiple taxation. There seems to be two ready answers to this objection. The first is that the record does not suggest that other states are making such levies, and there will be time enough to consider the problem of multiple taxation when and if it arises. *Henneford v. Silas Mason Co.*, 300 U. S. 577, 587, 57 S. Ct. 524, 81 L. Ed. 814. The second, is that if in fact other states can show as rational a basis for taxation on this business as is here shown there seems no reason why plaintiff, like its competitor railroads, should not pay the taxes so properly assessed."⁶⁰

Dealing with what the Circuit Court of Appeals has said, it is clear that the court misconceived the facts. No railroads are taxed by Connecticut or by any other state under any laws similar to that here sought to be applied. No other state has attempted to impose a similar tax formula on anyone.⁶⁷ The Connecticut statute, here involved, does not concern railroads as they are covered by entirely different statutes applying an entirely different method of taxation, which are in lieu taxes and are apportioned according to mileage.⁶⁸ In those railroad taxing acts, the state has observed the decisions of this Court.

It is true that other states do not now impose such a tax as Connecticut undertakes to levy. They could not do so under the decisions of this Court. Connecticut appears to be the first state that has ever tried to levy such a tax on

⁶⁰T. 146.

⁶⁷Witness Steege (for the state) T. 76.

⁶⁸See Appendix for statute taxing railroads.

motor carriers. As administered, departures have been made from both the transportation tax policy of Connecticut, as well as from the decisions of this Court. Other states have sought to levy multiple and cumulative taxes on railroads, and in every instance those laws have been set aside by this Court. The Connecticut law was passed in 1935, but insofar as plaintiff is advised, this is the first time Connecticut has ever sought to enforce it against an interstate motor carrier, and it seems that Spector has been selected for a test case.

The *Henneford Case*⁶⁹ cited by the Circuit Court of Appeals involved a use tax and had nothing to do with transportation. Use taxes have been recognized as compensating taxes and nothing of this nature is involved in this case. Interstate commerce had ended when the use tax was applied in the *Henneford Case*, and the state statute carefully provided against cumulative taxes in that the use tax was not imposed if the owner had paid a sales tax in any state.

Where a tax has been laid on the income, or other basis, of a transportation agency, as a measure of the value of other property, and by reason of defects in the formula, the state has reached beyond its borders, this Court has consistently disapproved such taxes and declared them to be multiple and cumulative and illegal burdens on interstate commerce.⁷⁰

Here the Connecticut law overreaches its boundaries to the full extent of taxing all of the revenue earned for the entire transportation journey involving numerous states.

⁶⁹*Henneford v. Silas Mason Co.*, 300 U. S. 577, 81 L. ed. 814.

⁷⁰*Union Tank Line Co. v. Wright*, 249 U. S. 275, 63 L. ed. 602.

Wallace v. Hines, 253 U. S. 66, 64 L. ed. 782.

New Jersey Bell Tel. Co. v. State Bd. of T. & A., 280 U. S. 338, 74 L. ed. 463.

Adams Mfg. Co. v. Storen, 304 U. S. 307, 82 L. ed. 1365.

In striking down multiple and cumulative tax burdens on interstate commerce, this Court has never conditioned its disapproval upon the ground that the tax is not multiple or cumulative simply because no other state has imposed it yet. Our system of taxation by states does not lend itself to state cooperation in tax matters. In the *Henneford Case*, *supra*, this Court pointed out that the tax policy of a state is not dependent upon the tax policy of other states, and said:

"A state, for many purposes, is to be reckoned as a self-contained unit, which may frame its own system of burdens and exemptions without heeding systems elsewhere".²¹

The Connecticut tax is illegal when imposed by Connecticut alone and its illegality is not increased or diminished by what other states may do. We respectfully submit that there is no authority for holding, as the Circuit Court of Appeals seems to suggest, *that two or more states must inflict an illegal tax burden before plaintiff may seek relief.*

The Connecticut law is so obviously multiple and cumulative and imposes such an unreasonable burden on interstate commerce, that the submission of figures would merely prove the obvious. However, we have said that the Connecticut law not only imposes an unreasonable burden on interstate commerce, but that it actually has the capacity to annihilate the business of interstate transportation. Having made that statement we now undertake to show the capacity of the statute to annihilate the business of plaintiff and the businesses of all other carriers similarly situated.

By reference to the statistics (note 9) it is shown that for the year 1942, plaintiff had a deficit in net operating

²¹*Henneford v. Silas Mason Co.*, 300 U. S. 577, 587, 81 L. ed. 814, 821. //

revenues of \$31,842, under the accounting procedure prescribed by the Interstate Commerce Commission. That Commission gave full credit for the item of "purchased transportation" amounting to \$1,045,221, which item represented 43% of the \$2,416,644 operating expenses. Under the Connecticut method of computing and taxing as income, 40% of \$1,045,221, the cost of "purchased transportation", the result would be to create a fictitious net income of over \$400,000 as against an actual deficit of about \$30,000.

If Connecticut may lay a tax of 2% on fictitious net income from interstate commerce, then all other states may do so and the carrier would be confronted with an additional tax, which is not in lieu of anything, in an amount of approximately \$8,000 for its system, as opposed to an actual loss of \$30,000. There has never been a year in the operation of the plaintiff corporation, when its actual net income was enough to pay such taxes, if levied by other states, to the full extent of the principle involved. In 1938 and 1942 the company did not earn enough money on its entire operations to pay the tax which Connecticut alone demands.^{71a}

We have shown the large portion of mileage, for the industry as a whole, which is represented by "purchased transportation" (note 55) and (note 9 and 10) we have shown the narrow margin of net income under which this transportation industry, as a whole, operates.

The percentage and importance of expense items which Connecticut disallows is so great and the basis for allocation of income so erroneous that it automatically creates such a large fictitious net income, that the actual net income must fall far short of being sufficient to pay the tax. If the tax is constitutionally sound at 2% it would be sound at 5%; if 40% of expenses may be disallowed, 100% may

^{71a} See notes 4 and 58.

be disallowed, and if traffic which originates in Connecticut may be taxed, so may traffic which terminates in Connecticut.

This transportation industry cannot increase its charges for services every time some state imposes an additional tax, because its charges are fixed by both competition from carriers, which are not subject to this kind of a tax, such as railroads, and by the Interstate Commerce Commission.

As heretofore shown (note 9) the industry operates on a profit of about 5% on its gross business; or, stated in transportation terms, it has an operation ratio of 95%. The exclusion of any part of expenses, which are in the nature of operating expenses, in computing defined "net income", results in a tax on gross income as shown by the following illustration, based on \$100 of gross revenue:

Excluded Expense	Resulting Taxed Gross Revenue
10% of \$100 = \$10.00	95% of \$10.00 = \$9.50
50% of \$100 = \$50.00	95% of \$50.00 = \$47.50
75% of \$100 = \$75.00	95% of \$75.00 = \$71.25
100% of \$100 = \$100.00	95% of \$100.00 = \$95.00

The effect of a 2% tax on defined "net income", with expenses disallowed, affects an industry with a 95% operating ratio (based on \$100 of gross revenue), as follows:

Excluded	True Net Revenue		Reduction
	Before 2% Tax	After 2% Tax	in Net
10% of \$100 = \$10.00	\$5.00	\$4.80	4%
50% of \$100 = \$50.00	\$5.00	\$4.00	20%
75% of \$100 = \$75.00	\$5.00	\$3.50	30%
100% of \$100 = \$100.00	\$5.00	\$3.00	40%

Therefore, a 2% tax on defined income, with 50% of expenses excluded, becomes a tax on 47½% of the gross income and results in a reduction of 20% in the net income or the same as a tax of 20% on net income.

Connecticut does not pro rate taxes on the 4.23% of mileage in that state but borrows enough revenue from the 95.77% of mileage in the other 11 states, to build up a

showing of about 40% of gross revenue as having originated in Connecticut, considering only westbound traffic.

Plaintiff operates in 12 states. Is it not obvious that each state cannot allocate 40% of the gross revenue to itself and find money enough in plaintiff's till to pay themselves off? *The Connecticut Act must be what the cases have referred to as cumulative or multiple taxation.*

Here, plaintiff has met the burden of proof that the statute, as applied, is unconstitutional. The results are not observed in intercorporate accounting, because all of the facts are of record. The unitary rule approved by this Court applies to both plaintiff and its subsidiary, the Wallace Company.^{71b}

The Court of Appeals appears to rely on *Ford Motor Co. v. Beauchamp*^{71c} as authority for a tax which is excessive, measured by physical property, but, in that case, the company held and exercised the right to engage in intrastate commerce, a fact which is not present here.

We respectfully submit that, first, by the grossly inequitable formula applied, and, secondly, by the grossly inequitable method of determining income earned in Connecticut, the state has imposed a tax burden which not only unduly burdens interstate commerce, but actually has the capacity to annihilate the business of corporations engaged in the transportation of interstate commerce, and it is therefore unconstitutional under the commerce clause.

^{71b}Butler Bros. v. McColgan, 315 U. S. 501, 86 L. ed. 991.

^{71c}Ford Motor Co. v. Beauchamp, 308 U. S. 331, 84 L. ed. 304.

POINT 3.

**THE STATE HAS DISCRIMINATED AGAINST INTER-
STATE COMMERCE IN CONTRAVENTION OF
THE COMMERCE CLAUSE AND APPLIED ITS
STATUTE SO ARBITRARILY AND CAPRICI-
OUSLY AS TO DENY PLAINTIFF EQUAL PRO-
TECTION AND DUE PROCESS OF LAW.**

The substance of these issues have been presented in connection with Points 1 and 2 and will not be repeated. There remain to be pointed out some additional elements of discrimination against interstate commerce.

If this statute be viewed as one applicable to interstate and intrastate commerce alike, that would not save it from its discriminatory features. If it is a tax for the privilege of doing business in the state, then it discriminates against and burdens interstate commerce because it taxes such commerce without conferring any benefits. Intrastate operators would receive some benefit from the privilege but this carrier is exclusively engaged in interstate commerce and is not engaged, and not permitted to engage, in business within the state⁷² and would be taxed without benefits.

We cannot believe that the tax can be viewed as having anything to do with the use of highways, and it does not purport to be such a tax. But if it were to be so viewed, that would not save it from discrimination against interstate commerce. Of the thousands of miles of highways in the State of Connecticut, plaintiff is permitted to use only about 300 miles, under the certificate issued by the Interstate Commerce Commission, but plaintiff would be required to pay exactly the same amount as is paid by corporations engaged in intrastate commerce over all of the highways. The tax is applicable to corporations engaged

⁷²Pacific Express Co. v. Seibert, 44 Fed. 310, 316 (affirmed 142 U. S. 339).

in interstate commerce but is not applicable to either individuals or partnerships engaged in either interstate or intrastate commerce.

The tax cannot be said to represent a means of reaching intangible values because, first, it does not purport to do so; secondly, the annual tax is about equal to or in excess of the total value of all of plaintiff's property in the state;^{72a} and thirdly, under the Federal Motor Carrier Act, good will and going concern values arising from the business of engaging in interstate commerce over the highways is not recognized as an asset.⁷³ The State would exact an income from a value which federal law does not permit to produce an income. If viewed as an extra state income for the use of highways, it approaches the federal prohibition against tolls for the use of Federal Aid Roads, as provided in such Acts.^{73a}

For these and the further reasons discussed under Point 2, the statute as applied discriminated against interstate commerce and denies plaintiff corporation due process and equal protection of the law.

^{72a}Witness Fisher, T. 29, Exhibits 12 and 13, T.

⁷³49 U. S. C. A. 316(h).

^{73a}39 Stat. 355, Sec. 1.

POINT 4.

THE STATE LAW IS NOT APPLICABLE TO PLAINTIFF, BUT IF SO, AS ADMINISTERED, IT CONTRAVENES THE CONSTITUTION OF CONNECTICUT.

By Its Terms The Statute Does Not Apply To The Plaintiff.

Where, as here, the court acquires jurisdiction because of the federal question raised by the bill of complaint, the court has jurisdiction to determine all the questions of the case, local as well as federal.

Our first contention is, therefore, that the act in question contemplates the taxation only of intrastate commerce and not of interstate commerce. The statute (Section 176F of the 1941 Supplement to the General Statutes) defines the tax payable by the corporation as "a tax or excise upon its franchise for the privilege of carrying on or doing business *within the state* * * *". In setting up a method of allocation, the Statute (Section 177F of the 1941 Supplement to the General Statutes) says, "If the trade or business of the taxpayer shall be carried on partly without the state, the business tax shall be imposed on a base which reasonably represents the proportion of the trade or business carried on *within the state*." By way of confirmation see *Underwood v. Chamberlain*, 94 Conn. 47 at page 55 where the court in construing a similar statute which preceded the present statute said:

"It is not an income tax, as such, because it is assessed only if and when the corporation does business within the State, and in the case of domestic corporations doing business in this and other States there is no attempt to assert personal jurisdiction for the purpose of taxing their entire income. Foreign and

¹R. R. Commission v. Pacific Gas & Electric Co., 302 U. S. 338, 82 L. ed. 319.

domestic corporations are treated alike, and the entire income is not taxed unless the entire business of the corporation is done within the State. It is apparent, therefore, that the basis of the tax is not jurisdiction over the property or over the person of the corporation, but jurisdiction over its business; and that it is a tax in the nature of an excise tax levied against domestic and foreign corporations alike, for the privilege of doing business in a corporate capacity within this State."

But unlike the Underwood Typewriter Company, whose business is both intrastate and interstate (the manufacturing being carried on in Connecticut and the sales and service all over the world), the plaintiff's business is entirely interstate. "Interstate commerce is not business done within the State of Missouri. It is business done between two or more states."

The defendant apparently relies on the fact that the plaintiff qualified as a foreign corporation in Connecticut, as shown by Exhibit 1. But that qualification gave the plaintiff no right to operate within this state. It imposed obligations rather than conferring rights. It subjected the plaintiff to the jurisdiction of Connecticut courts and was done to protect the plaintiff's landlord.⁷⁵ A foreign carrier to engage in intrastate business in Connecticut, must not only qualify with the Secretary of State but also with the Public Utilities Commission. In order to operate its trucks in intrastate commerce within the state of Connecticut, the plaintiff would have been compelled to obtain a certificate of public convenience and necessity from the State Public Utilities Commission in accordance with Section 577C of the Cumulative Supplement to the General Statutes (1935)

⁷⁵ Pacific Express Co. v. Seibert, 44 Fed. 310, 316, affirmed 142 U. S. 339.

⁷⁶ See P. 11 Findings of Fact, T. 102.

and with Section 499E of the 1939 Supplement to the General Statutes. No such authority has been sought or granted as we have seen from Exhibits 3 and 4, and as the District Court found.⁷⁶ The plaintiff is therefore not carrying on business "within the state" nor has it the right so to do.

It has been held that the fact that a foreign corporation engaged exclusively in interstate commerce had received from a state a local license to do business in the state, that such license did not subject the corporation to an excise tax.⁷⁷

Still another consideration indicates that the legislative intent was to tax only intrastate commerce and not to tax interstate commerce. It is clearly within the power of the legislature to tax intrastate commerce but its power to tax interstate commerce encounters constitutional questions. That construction which will avoid the constitutional question is to be preferred.⁷⁸

We contend, therefore, that the plaintiff is not carrying on nor has it the right to carry on, its business "within the state". The statute has no application to it. The plaintiff is consequently entitled to the injunction granted by the District Court without regard to the constitutionality of the statute.

⁷⁶Finding P. 12, T. 102.

⁷⁷Ozark Pipe Line Corporation v. Monier et al, 266 U. S. 555, 69 L. ed. 439.

⁷⁸Anniston Mfg. Co. v. Davis, 301 U. S. 337, 81 L. ed. 1143.

POINT 5.

AS CONSTRUED BY THE DEFENDANT THE STATUTE VIOLATES THE DUE PROCESS REQUIREMENTS OF BOTH FEDERAL AND STATE CONSTITUTIONS.

The plaintiff owns no trucks except, as it may be said, for a few pick-up trucks which are registered in its name.⁷⁹ It obtains the trucks needed in its business from owners, by contract. Obviously payments made to such owners by the plaintiff are its greatest single item of expense. The accountant, Mr. Arnold,⁸⁰ testified that this item of purchased transportation (as it is called under Interstate Commerce Commission accounting practice), amounts to approximately 60% of the total expense of Spector Motor Service. The statute does not allow "rent" as a deduction. The defendant construes this item of purchased transportation to be "rent". Certainly under these circumstances the defendant's refusal to allow this large operating expense to be deducted makes this assessment no longer a tax on net income but approaches a tax on gross income from interstate commerce. Such taxation, standing alone, has been repeatedly and recently condemned by this Court.⁸¹

Exhibit 15, as explained by Mr. Arnold,⁸² shows the essential unfairness of the tax as computed by the defendant. If all the other states through which the plaintiff operates imposed a similar tax, a total tax of \$5,339.76 would have been payable out of a net income of \$111.39 for the last seven months of 1938; out of a net income of \$46,064.34

⁷⁹Witness Fisher, T. 25, 26.

⁸⁰Witness Arnold, T. 61, 62.

⁸¹Gwin v. Henneford, 305 U. S. 434, 83 L. ed. 272, and cases cited.

⁸²Witness Arnold, T. 53-56.

for the year 1939 the tax payable would be \$15,442.91 and out of net income of \$10,505.86 for the year 1940 the tax would be \$20,495.86. The net income above mentioned is net income for federal income tax purposes. If such a tax were upheld, its burden on interstate commerce is at once apparent. The demands made by the state do not represent all that can be demanded if the tax is approved. What one state can do all can do. Thus a local business would be affected but little, whereas interstate commerce would feel the full effect of a tax enforced in many states in such a way as to cripple the interstate business. Further in still another particular, Exhibit 15 illustrates perfectly that this type of taxation is a destructive burden on interstate commerce in that it appears from that exhibit that the tax increases proportionately with the gross income but has no relation to the net income. In 1940 with a gross income of \$1,723,510.65 and a net of \$10,505.86 the tax is \$20,495.86. In 1939 with a gross income of \$1,202,210.35 and a net of \$46,064.34 the tax is \$15,442.91, and in 1938 (seven months) with a gross income of \$432,087.39 and a net of \$111.39 the tax is \$5,339.76.

For these reasons the assessment is unfair and inequitable and a violation of due process.

It is significant that without legislative sanction, the state tax department has adopted as a rule of thumb, a policy of allowing 60% of the cost of purchased transportation as an operating expense and disallowing the remaining 40%.⁸³ Obviously it was felt by the department that the cost of purchased transportation was not rent and that some compromise should be adopted. It appears from the testimony of Mr. Steege, Director of the Corporation Division of the State Tax Department,⁸⁴ that the department on

⁸³Findings P. 19, T. 103.

⁸⁴Witness Steege, T. 75-80.

the basis of experience of contract carriers estimated that of the cost of hiring trucks 60% could fairly be considered as an operating expense and 40% representing the value of the use of the vehicle. But the payments here made are not solely for the "use of the vehicle," but represent the cost of operating the vehicle. If reasonable with respect to contract carriers, which is improbable, it is not fair in the present case and the District Court so found.⁸⁵ As Exhibit 16 shows, every cent paid by the plaintiff to its chief lessor, Wallace Transport Co., is used by the company for operating expenses. Exhibit 16 breaks down the operating expenses of Wallace, so that it is obvious that none of the revenue received by Wallace is in reality "rent". If Spector owned the trucks, every penny now paid to Wallace would be used by Spector to operate those trucks. So that the 60-40 allocation adopted by the department is not equitable so far as this plaintiff is concerned. If taxable at all, it is entitled to a deduction of one hundred percent of the cost of purchased transportation.

Moreover, as pointed out by Mr. Fisher,⁸⁶ an allocation suitable for contract carriers or short-haul carriers, is not fair to long-haul carriers like the plaintiff. Yet it was admitted by Mr. Steege that his figures come from contract carriers⁸⁷ and this is confirmed by Mr. Fisher.⁸⁸

Accordingly there is ample evidence to support the District Court's finding that the rule of thumb, applied by the defendant in this case, was not based on any analysis of the plaintiff's records⁸⁹ but was based on the experience of

⁸⁵Findings, P. 21, T. 103.

⁸⁶Witness Fisher, T. 80-84.

⁸⁷Witness Steege, T. 76-78.

⁸⁸Witness Fisher, T. 81.

⁸⁹Findings, P. 20, T. 103.

other carriers whose method of operations varied so from the plaintiff's as to make no fair comparison between them possible.⁹⁰ It follows that the action of the defendant in allowing a deduction of only 60% of the cost of purchased transportation cannot stand, in the face of the showing made by the plaintiff.

For all these reasons we submit the assessments are unfair and discriminatory and a violation of due process.

⁹⁰Findings, P. 21, T. 103.

POINT 6.

THE ASSESSMENTS ARE VOID BECAUSE MADE BY THE DEFENDANT, AN OFFICER OF THE EXECUTIVE DEPARTMENT OF THE STATE GOVERNMENT ACTING IN A LEGISLATIVE CAPACITY.

Article Second of the Constitution of the State of Connecticut provides: "the powers of government shall be divided into three distinct departments and each of them confided to a separate magistracy, to wit, those which are legislative, to one; those which are executive, to another; and those which are judicial, to another."

As interpreted by the Supreme Court of Connecticut, this provision is a definite check on the delegation of legislative power to an officer of the executive branch of the government. Thus in *State v. Stoddard*,⁹¹ where a legislative delegation of power to the milk administrator was held invalid, the court laid down this principle at page 628:

"A legislature, in creating a law complete in itself and designed to accomplish a particular purpose, may expressly authorize an administrative agency to fill up the details by prescribing rules and regulations for the operation and enforcement of the law. In order to render admissible such delegation of legislative power,

⁹¹*State v. Stoddard*, 126 Conn. 623, 13 Atl. 2nd 586.

however, it is necessary that the statute declare a legislative policy, establish primary standards for carrying it out, or lay down an intelligible principle to which the administrative officer or body must conform, with a proper regard for the protection of the public interest and with such degree of certainty as the nature of the case permits, and enjoin a procedure under which, by appeal or otherwise, both public interests and private rights shall have due consideration. *Panama Refining Co. v. Ryan*, 293 U. S. 388, 426, 55 Sup. Ct. 241, and note, 79 L. ed. 474 et seq.; *Hampton & Co. v. United States*, 276 U. S. 394, 405, 409, 48 Sup. Ct. 348; *Wichita R. R. & Light Co. v. Public Utilities Commission*, 260 U. S. 48, 59, 43 Sup. Ct. 52; *Connecticut Co. v. Norwalk*, 89 Conn. 528, 531, 94 Atl. 992; 11 Am. Jur. 956. If the legislature fails to prescribe with reasonable clarity the limits of the power delegated or if those limits are too broad, its attempt to delegate is a nullity. *Schechter Poultry Corp. v. United States*, 295 U. S. 495, 530, 55 Sup. Ct. 837; *Holgate Bros. Co. v. Bashore*, 331 Pa. St. 255, 262, 200 Atl. 672, 117 A. 2d R. 639, 644, 645; *Van Winkle v. Fred Meyer, Inc.*, 15 Ore. 455, 466, 49 Pac. (2d) 1140; *Jersey Maid Milk Products Co., Inc. v. Brock*, 13 Cal. (2d) 620, 642, 91 Pac. (2d) 577, 589."

Measured by this standard we submit that the present statute is unconstitutional as a violation of the state constitution^{21a} and as a violation of the federal constitution because of a lack of due process. The statute (section 177F formerly 420C of the Supplement to the General Statutes and 356E of the 1939 Supplement sets up the method of allocating net income. After providing for an allocation of such forms of income as interest, dividends, royalties and gains, the statute provides: "The remainder of the net income of the taxpayer shall be allocated and apportioned as follows: (a) Such income when received from business other than the manufacture, sale or use of tangible per-

^{21a} *Connecticut Baptist Convention v. McCarthy*, 128 Conn. 701, 25 Atl. 2nd 656.

sonal or real property shall be specifically allocated within and without the state under rules and regulations of the tax commissioner."

A common carrier, like a restaurant owner, the dentist or the plumber, sells its services. The use of personal property is merely incidental. "Service is the predominant feature of the transaction."⁹²

Therefore, since the plaintiff's business was selling its services—an intangible thing—it was not engaged in the manufacture, sale or use of tangible personal or real property. The allocation of its net income from the sale of those services was therefore determined by subsection (a) above, which left it to the absolute and uncontrolled discretion of the defendant to fix. There is in the statute no standard or principle by which the defendant might be guided. In brief, he was handed supreme legislative power in violation of the constitutional provisions cited.

It is, of course, no answer that the present defendant used his best judgment in making the allocation. The point is that with no standard set up by the legislature, it is open to the tax commissioner, or to a future tax commissioner, to make any allocation he pleases. It is the system which we attack as being unconstitutional. The system being unconstitutional, its product is likewise unconstitutional.

The Computations Were Made On An Inaccurate Base.

In this section we do not contend that the computations are arithmetically inaccurate. Our contention is more fundamental.

As we contended, the plaintiff's income does not come from the manufacture or sale of real or personal property.

⁹²Lynch v. Hotel Bond Co., 117 Conn. 128, 131.

Ace High Dresses, Inc. v. J. C. Trucking Company, Inc., 122 Conn. 578, 581.

It comes from the sale of an intangible thing "service" in which personal property plays a relatively minor role. Therefore, the allocation of its income should have been under subsection (a) of the statute, which, as we have just argued, grants to the commissioner unconstitutional power.

But in fact, as Mr. De Cicco, senior examiner of the Tax Department, testified,⁹³ the formula actually used was not that set out in subsection (a) but that used in subsection (b) which sets up a mean of three complicated fractions as the proper formula for allocation. Subsection (b) however, by its terms, applies only to those corporations whose income is "derived from the manufacture, sale or use of tangible personal or real property." Since we have seen that the plaintiff's income is not derived from such a source, it follows that the formula of subsection (b) is not applicable and that the defendant was in error in using it.

The Results Are Contrary To State Policy.

As disclosed by the provisions of Connecticut law applicable to railroads, etc. (set forth in the appendix), the policy of the state is to apply its tax laws, dealing with transportation, only to business actually conducted within the state and then, such taxes on gross revenue are in lieu taxes. As applied, the statute here in issue is not confined to revenue earned in the state, nor is the statute an in lieu tax.

For those reasons we claim the assessments to be invalid.

⁹³Witness De Cicco, T. 72-75.

POINT 7.

PENALTIES AND INTEREST SHOULD NOT BE ALLOWED.

As pointed out in the opinion of the Circuit Court⁹⁴ the state claims penalties and interest. In view of the questions involved and good faith litigation, such penalties and interest should not be recovered,⁹⁵ even if a tax liability is finally determined.

CONCLUSION.

The Court of Appeals frankly stated that the decision of this Court in the *Alpha Portland Cement case*⁹⁶ "foreclosed all further discussion". That observation is particularly important in two respects. Factually, that case dealt with a statute which was substantially identical with the Connecticut statute here assailed. Legally, the Court of Appeals has pursued an unusual course in disregarding the existing law, as laid down by this Court, and in undertaking to foreclose future decisions.

⁹⁴Opinion C. C. A. T. 113.

⁹⁵Uebersee Finanz Korporation, etc., v. Rosep, 83 Fed. (2d) 225.

Sunshine Anthracite Coal Co. v. Adkins, 310 U. S. 381.

Ex parte Young, 209 U. S. 123, 52 L. ed. 714.

Chesapeake & Ohio Ry. Co. v. Conley, 230 U. S. 513, 57 L. ed. 1597.

Missouri P. R. Co. v. Tucker, 230 U. S. 340, 57 L. ed. 1507.

Natural Gas Pipe Line v. Slattery, 302 U. S. 300, 82 L. ed. 276.

Oklahoma Operating Co. v. Love, 252 U. S. 331, 64 L. ed. 596.

St. L. Iron M. R. Co. v. Williams, 251 U. S. 63, 64 L. ed. 139.

Wadley So. R. Co. v. Georgia, 235 U. S. 651, 59 L. ed. 405.

⁹⁶Alpha Portland Cement Co. v. Mass., 268 U. S. 203, 69 L. ed. 916.

We respectfully suggest that the learned Court of Appeals became intrigued with what it conceived to be a trend in tax philosophy to the obscuration of the facts in this case.

We have pursued the dissenting opinions in the numerous cases cited by the Circuit Court of Appeals. The most that we can glean, from the dissenting opinions, is the readily understandable proposition that Congress should indicate the extent, if any, which it is willing to permit the cost of engaging in interstate commerce to be increased by state taxation.

The case at bar presents the distinction between taxation which increases the cost of interstate commerce and to that extent burdens interstate commerce, and a tax, which, if applied, by all of the states would, to a mathematical certainty destroy interstate commerce.

This Court (nor any of the dissenting opinions) have ever gone beyond holding that one who challenges a state tax as being a destructive burden on interstate commerce, assumes the duty of demonstrating the fact.

There have been cases where the charge of destructive burdens was made but not proven and nothing in the facts of such cases necessarily lead to the conclusion that the tax might be destructive. Here, we have, to the best of our ability, undertaken to demonstrate, from factual matter of record, that the tax is destructive as distinguished from burdensome. In aid of our illustrations of the point, we have referred to certain statistical material prepared by the Interstate Commerce Commission.

The Court of Appeals bases its opinion on the weight to be given practical considerations in dealing with tax matters. However, we respectfully suggest that the Honorable Court overlooked the fact that this Court, in every case, has dealt with the facts before it, and the opinions of this Court cannot be disassociated from the facts in the cases.

We have tried to spell out the proposition that the "commerce" clause has been implemented by many expressions from Congress with respect to the freedom of interstate commerce from, at least, destructive burdens, if not from all burdens. The opinions of this Court and the dissenting opinions of the Honorable Justices have, as we understand them, done no more than to carefully consider the difficulties which are confronted by this Court in distinguishing between mere burdens and destructive burdens. There is nothing in either the majority or dissenting opinions to indicate that this Court would ever have any hesitation in striking down a destructive burden once the tax was identified and established as such.

If we have made our case, by establishing the destructive nature of the tax, then we have met the issues which have been raised by the opinions of this Court. We think we have presented such a case, and met the requirements in connection therewith.

We have stated that the tax has the capacity to destroy interstate commerce. In closing, we undertake a further analysis of that proposition. In presenting the summary, we have in mind both the allowances or concessions, presently made by Connecticut (by way of grace), and the full force of the tax in the light of the legal principles which are involved.

Any tax scheme involving defined income, which converts an actual deficit into a profit, is unreasonable, regardless of the fact that the "allowances" lessen the magnitude of the burden. Once the theory of the tax scheme clears the Constitutional issues, the removal of administrative grace and the correction of errors in assessments will inevitably follow, and interstate commerce will receive the full force of the tax policy.

As presently applied, Connecticut allows, administratively, a deduction of 60% of the payments for purchased

transportation, which the tax administrator calls "rent". However, as we pointed out, this appears to have come about because the tax administrator was under the impression that drivers' wages were involved in the "rent" paid to the Wallace Company. The facts are that no drivers' wages were included in such "rent", and, therefore, it is to be expected that, for the future, no deductible allowance will be made. That "correction" alone would more than double the tax.

Another administrative concession, presently allowed, is that the tax is only computed on the basis of interstate commerce originated, or, more accurately, delivered to the carrier, in Connecticut. If interstate commerce may be taxed on account of place of delivery to a common carrier, there appears to be no presently recognized legal ground for contending that interstate commerce may not also be taxed on the basis of the final portion of the journey. The Connecticut statute makes no distinction, and, if one-way traffic may be taxed, it follows that two-way traffic will be taxed.

As presently applied by Connecticut, alone, the tax exceeded plaintiff's income for the years 1939 and 1942. For 1938 (7 months) the plaintiff's net income was \$111.39⁹⁷ and the tax was \$698.94.⁹⁸ In 1942, plaintiff had an actual deficit of \$31,842⁹⁹ but in that year the carrier had an expense of \$1,045,221 for purchased transportation, and 46% of that amount would be disallowed by Connecticut, under its present practice, as an expense, with a resulting fictitious defined income of about \$400,000, subject to allocation and taxation by Connecticut.

⁹⁷See note 5.

⁹⁸Exhibit 18.

⁹⁹See note 9.

If the other states, through which plaintiff operates, levied a tax, as applied by Connecticut, the tax would exceed plaintiff's income for 1938, 1940 and 1942. If the other states levied the same 2% tax on all of the "defined income", the tax for 1938 would have been \$5,339.76 for 7 months, as against an actual net income of \$111.39 for 7 months.¹⁰⁰ On the same basis, the tax for 1940 would have been \$20,495.86 as against an actual net income of \$10,505.86, and would have resulted in a deficit for the year. The amount of tax for 1942 is not shown of record, but the plaintiff operated with an actual deficit of \$31,842 for that year.¹⁰¹ In that year, plaintiff had expenses of \$1,045,221 for purchased transportation, of which 40% would be disallowed and thereby producing a defined income of at least \$400,000, subject to tax. Application of the tax by all states could only serve to increase the deficit.

Withdrawal by Connecticut and other states of the 60% "allowances" for expense in connection with purchased transportation, would have the effect of increasing the tax by about 150%.

Inasmuch as the "allowance" appears to have been made under a misunderstanding of the facts,¹⁰² it is logical to anticipate withdrawal. Based on the withdrawal of the 60% expenses allowance, on purchased transportation, the defined income would be increased by that amount. In 1940, plaintiff paid out \$991,122 for purchased transportation. Of this amount 60% has been allowed as an expense and 40% disallowed.

Disallowance of the presently allowed 60% of the cost of purchased transportation, would increase the defined

¹⁰⁰Witness Arnold, T. 53-56 and Exhibit 15.

¹⁰¹See note⁹⁹.

¹⁰²Witness Arnold, T. 62, 63.

income by about \$600,000 upon which a 2% tax would be exacted. That would increase the tax from \$20,495.86 to about \$32,000 for all states, when the actual net earnings were only \$10,505.86.¹⁰³

It should be noted that Connecticut allocates to itself from 30% to 50% of plaintiff's gross business,¹⁰⁴ whereas Connecticut represents only 4.23% of plaintiff's mileage.¹⁰⁵ Clearly if other states did likewise, the results would again pyramid the tax in every state.

In every case that has come to our attention, involving allocations, between states, of taxation of transportation revenue or facilities, some form of mileage allocation has been used.¹⁰⁶ Certainly the mileage basis approaches the only known means of an equitable allocation of transportation revenue, if the tax be legal otherwise. Traffic originates and terminates in every state in which applicant operates with the exception of Ohio, which is a "bridge" state only,¹⁰⁷ however line-haul revenue is necessarily earned in that state.

¹⁰³ Witness Arnold, T. 53-56, Exhibit 15.

¹⁰⁴ Exhibit 17.

¹⁰⁵ Exhibit 18.

¹⁰⁶ *Western Union T. Co. v. Massachusetts*, 125 U. S. 530, 31 L. ed. 790.

Pullman P. C. Co. v. Pa., 141 U. S. 18, 35 L. ed. 613.

Pittsburgh etc. Ry. Co. v. Backus, 154 U. S. 421, 38 L. ed. 1031.

Cleveland etc. R. Co. v. Backus, 154 U. S. 439, 38 L. ed. 1041.

Postal T. & C. Co. v. Adams, 155 U. S. 688, 39 L. ed. 311.

Wisconsin & M. R. Co. v. Powers, 191 U. S. 379, 48 L. ed. 229.

Fargo v. Hart, 193 U. S. 490, 48 L. ed. 791.

Pullman Co. v. Richardson, 261 U. S. 330, 67 L. ed. 692.

Atlantic Coast L. R. Co. v. Doughton, 262 U. S. 413, 67 L. ed. 1051.

¹⁰⁷ Exhibits 5 and 6.

We beg the indulgence of the Court that we may make an observation with respect to the general subject of constitutional tax philosophy. We do not think that the purpose of the commerce clause was limited to that of an enabling act for Congress. As we view the matter, the colonies had enough experience with burdens on interstate commerce and therefore demanded constitutional protection, in and of itself.

The influences which prevail to burden interstate commerce in some State Legislatures, do not, at that point, exhaust their influence.

We concede the merit in the observation of the dissenting Justices in *McCarroll v. Dixie Greyhound Lines*¹⁰⁸ where it was said:

"Unconfined by the narrow scope of judicial proceedings Congress alone can, in the exercise of its plenary constitutional control over interstate commerce, not only consider whether such a tax as now under scrutiny is consistent with the best interests of our national economy, but can also on the basis of full exploration of the many aspects of a complicated problem devise a national policy fair alike to the States and our Union."

However, appreciation of mundane practicalities moves us to the sincere assertion that permanent tenure of office was a safeguard which the Constitution provided this Court¹⁰⁹ and did not provide for Congress.

¹⁰⁸ *McCarroll v. Dixie Greyhound Lines*, 309 U. S. 176, 84 L. ed. 683.

¹⁰⁹ Constitution, Art. III, Section 1.

WHEREFORE, It is respectfully submitted that the judgment of the Circuit Court of Appeals should be reversed and the judgment of the District Court affirmed.

Respectfully submitted,

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APPENIX

Connecticut General Statutes

The Connecticut Corporation Business Tax, Act of 1935.

Section 418c, 1935 Supplement to the General Statutes:

Sec. 418c. Imposition of tax. Every mutual savings bank, savings and loan association and building and loan association doing business in this State, and every other corporation or association carrying on business in this state which is required to report to the collector of internal revenue for the district in which such corporation or association has its principal place of business for the purpose of assessment, collection and payment of an income tax, except (1) insurance companies, (2) companies principally engaged in the transportation and communication business and subject to the gross earnings taxes under chapters 70, 71 and 72, (3) companies principally engaged in manufacturing, selling or distributing gas, electricity or water and subject to the gross earnings tax imposed under chapter 73 and (4) companies all of whose properties in this state are operated by companies subject to taxation under chapters 70, 71, 72 and 73, shall pay, annually, a tax or excise upon its franchise for the privilege of carrying on or doing business within the state, such tax to be measured by the entire net income as herein defined received by such corporation or association from business transacted within the state during the income year and to be assessed at the rate of two per cent; provided in no case shall the tax be less than minimum tax as computed under section 421c and provided, when any company taxable under chapter 71 shall engage in any business in this state other than the carrying of passengers for hire in common carrier motor vehicles, such company shall be subject to a tax of two per cent measured by that portion of its total net income derived from such business but shall not be subject to the minimum tax computed under section 421c. Notwithstanding any other provisions of this chapter, any mutual savings bank owning, at the end of the income year, real estate acquired for debt having an assessed valuation of ten per cent

or more of its total assets shall, during the calendar years 1936 and 1937, be subject to the lesser of (1) the tax imposed by this chapter and (2) the tax imposed by chapter 68 as amended by section 355b of the 1933 supplement. ⁽¹⁾

Section 419c, 1935 Supplement to the General Statutes:

Sec. 419c. Deductions from gross income. In arriving at net income as defined in section 417c whether or not the taxpayer is taxable under the Federal Corporation net income tax, there shall be deducted from gross income all items deductible under the federal corporation net income tax law effective and in force on the last day of the income year, except (1) federal taxes on income or profits, losses of prior years, interest received from federal, state and local government securities and specific exemptions, if any such deductions shall be allowed by the federal government and (2) interest and rent paid during the income year.

Section 420c, 1935 Supplement to the General Statutes:

Sec. 420c. Allocation of net income. If the trade or business of the taxpayer shall be carried on partly without the state, the business tax shall be imposed on a base which reasonably represents the proportion of the trade or business carried on within the state. The allocation of the base of the tax measured by net income shall be made on the following basis: (1) Interest, dividends, royalties and gains from sales of intangible assets, less related expenses, when received by a company having its principal place of business within the state, shall be allocated to the state and, when received by a company having its principal place of business without the state, shall be allocated without the state; provided, when it can be clearly established that such income is received in connection with business within the state, such income shall be allocated to the state without regard to the location of the principal place

⁽¹⁾ Effective July 1, 1937, the legislature amended Sec. 418c to apply to every corporation not merely carrying on, but also "having the right to carry on," business in this state. Connecticut General Statutes, Supplement 1939, Section 354e. This amendment was cited by the Circuit Court of Appeals as shown by the opinion at T. 112.

of business of the taxpayer; and a similar rule shall apply to such income received in connection with business without the state; (2) gains from sales or rentals of tangible capital assets held, owned or used in connection with the trade or business of the taxpayer but not for sale or for rent in the regular course of business shall be allocated to the state if the property sold or rented be situated in the state prior to the sale or during the rental thereof, otherwise such gains shall be allocated outside the state; (3) net income of the above classes having been separately allocated and deducted as above provided, the remainder of the net income of the taxpayer shall be allocated and apportioned as follows: (a) Such income, when derived from business other than the manufacture, sale or use of tangible personal or real property, shall be specifically allocated within and without the state under rules and regulations of the tax commissioner; (b) when derived from the manufacture, sale or use of tangible personal or real property, the portion thereof attributable to business within the state shall be determined by means of an allocation fraction to be computed as the simple arithmetical mean of three fractions. The first of these fractions shall represent that part of the average monthly fair cash value of the total tangible property held and owned by the taxpayer during the income year which is held within the state, without deduction on account of any incumbrance thereon but excluding any property the income of which is separately allocated under the foregoing provisions of this chapter. The second fraction shall represent the part of the total wages, salaries and other compensation to employees paid by the taxpayer during the income year from offices, agencies or places of business within the state, provided all such payments shall be assigned to the office, agency or place of business of the taxpayer at which the employee chiefly works or from which he is sent out or with which he is chiefly connected. The third fraction shall represent the part of the taxpayer's gross receipts from sales or other sources during the income year, excluding any income which is specifically allocated under subdivisions (1) and (2) of this section, which is assignable to offices, agencies or places of

business within the state, provided such receipts shall be assigned to that office, agency or place of business at or from which the transactions giving rise thereto are chiefly negotiated and executed.

Taxation of Railroads

Chap. 70, Section 1302, General Statutes of Connecticut, 1930:

Each corporation operating a steam or electric railroad or street railway and carrying on business for profit in this state, shall pay annually a tax computed upon its gross earnings from all sources from operations in this state; gross earnings being all receipts classified as railway operating revenues by the Interstate Commerce Commission in the classification of accounts prescribed by said Commission. No deduction shall be made from such gross earnings for any commission, rebate or other payment, except a refund resulting from an error or overcharge.

Chap. 70, Sec. 1307, General Statutes, 1930:

The tax provided for in this chapter upon the gross earnings of each corporation included in section 1302 shall be in lieu of all other taxes in this state for the year ended the thirty-first day of December of the year for which such statement is required to be made on its rights, franchises, funded and floating debt and property in this state, and on the property of each corporation, which property is operated in this state by any such corporation so liable to such tax upon gross earnings; but the real estate in this state owned by such corporation, or by a corporation whose property is operated by it, when not used exclusively for railroad purposes, shall be assessed and taxed where it is located. . . .

Chap. 70, Sec. 44Se, 1935, Cumulative Supplement, amending Section 1304, General Statutes;

Such tax shall be based on the amount of gross earnings from all sources from operations in this state, as follows: (1) In case of a corporation operating a

railroad or railway which is entirely within the limits of this state, the amount of gross earnings from all sources from operations; (2) in case of a corporation operating a railroad or railway when only a part of such railroad or railway lies in this state, such portion of the amount of gross earnings from all sources from operations as is represented by the ratio of the number of miles of tracks, including yard tracks, sidings, branches and spurs, operated in this state during the year ended said thirty-first day of December, to the number of miles of such tracks, including yard tracks, sidings, branches and spurs, operated by it during such year. The net railway operating income for the purpose of computing the rate of tax shall constitute: (1) In the case of a corporation operating a steam or electric railroad which is entirely within the limits of this state, the entire net railway operating income; (2) in the case of a corporation operating a steam or electric railroad, only a part of which railroad is in this state, such portion of the net railway operating income as is represented by the ratio of the number of miles of tracks, including yard tracks, sidings, branches and spurs, operated in this state during the year ended said December thirty-first, to the number of miles of such tracks, including yard tracks, sidings, branches and spurs, operated by it during such year. The rate of tax on gross earnings of street railways shall be three per cent; the rate of tax on gross earnings of steam or electric railroads, other than street railways shall be fixed as follows: (a) When there shall be no net railway operating income, or the net railway operating income shall not exceed eight per cent of the gross earnings, two per cent of the gross earnings; (b) when the net railway operating income shall exceed eight per cent of the gross earnings, but shall not exceed ten per cent, two and one-quarter per cent; (c) when the net railway operating income shall exceed ten per cent of the gross earnings, but shall not exceed twelve per cent, two and one-half per cent; (d) when the net railway operating income shall exceed twelve per cent of the gross earnings, but shall not exceed fourteen per cent, two and three-quarters per cent; (e) when the net railway operating income shall exceed fourteen per cent of the gross earnings, but

shall not exceed sixteen per cent, three per cent; (f) when the net railway operating income shall exceed sixteen per cent of the gross earnings, but shall not exceed eighteen per cent, three and one-quarter per cent; (g) when the net railway operating income shall exceed eighteen per cent of the gross earnings, three and one-half per cent. The amount of taxes paid during the year ended said thirty-first day of December, in any town in this state, on the real estate not used exclusively in the business of such corporation, or of any corporation all of whose property is operated by such corporation, shall be deducted from the amount of the tax upon such gross earnings.

Taxation of Bus Companies

Chap. 71, Section 452, of the 1935 Cumulative Supplement, amending Section 1312, General Statutes, provides that

motor bus companies operating partly in Connecticut and partly elsewhere, shall pay a tax of 3 per cent upon that portion of their gross receipts which the Connecticut mileage bears to total mileage. This is also an in-lieu tax (Sec. 454c; 1935 Cum. Supp. amending S. 1314, General Statutes.)

SPECTOR MOTOR SERVICE, INC.

SCHEDULE 5200

From Annual Report Filed With
The Interstate Commerce Commission.

	1939	1940	1941	1942
Public Utility Taxes and Licenses	\$ 1,163.95	\$ 780.44	\$ 1,730.04	\$ — —
Other Licenses	16.00	—	466.90	568.00
Corporation Taxes	124.25	96.50	239.50	139.65
Personal Property Tax	4.18 ⁰⁰	10.46	49.33	388.47
Social Security Tax	11,960.00	16,401.44	25,139.34	24,716.21
Federal and State Capital-Stock and Stock-Transfer Tax	500.00	877.15	1,875.00	625.00
Federal Excise Taxes	—	103.21	877.47	2,216.05
Other Taxes	40.00	—	—	12.47
Grand Total	13,808.37	18,269.20	30,377.58	28,665.85

Note: These taxes are exclusive of the taxes paid by the Wallace Transportation Co. from whom appellant secures most of its vehicles.

FILE COPY

OFFICE

NOV 2

CHARLES E. DUNN

No. 62

IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

SPECTOR MOTOR SERVICE, INC.

Petitioner.

CHARLES J. McLAUGHLIN, TAX COMMISSIONER,
WALTER W. WALSH, SUBSTITUTED DEFENDANT,

Respondent.

ON APPEAL FROM THE UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE SECOND CIRCUIT AND CERTIORARI

BRIEF OF RESPONDENT

FRANCIS A. PALLOTTI

Attorney General

FRANK J. DISESA

Assistant Attorney General

Counsel for Respondent

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IN THE
Supreme Court of the United States

OCTOBER TERM, 1944

No. 62

SPECTOR MOTOR SERVICE, INC.,

Petitioner,

v.

**CHARLES J. McLAUGHLIN, TAX COMMISSIONER,
WALTER W. WALSH, SUBSTITUTED DEFENDANT,**

Respondent.

ON APPEAL FROM THE UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE SECOND CIRCUIT AND CERTIORARI

BRIEF OF RESPONDENT

To the Honorable the Chief Justice and Associate Justices of
the Supreme Court of the United States:

Opinions Below

The Opinion of the United States District Court (R. 94) is reported in 47 Fed. Supp. 671. The Opinion of the United States Circuit Court of Appeals for the Second District (R. 109) is reported in 139 Fed. (2d) 809.

Jurisdiction

The judgment of the United States District Court was entered December 19, 1942. Notice of appeal to the United States Circuit Court for the Second Circuit was filed January 29, 1943. The Petition for Certiorari was filed April 18, 1944 and granted on May 22, 1944. The jurisdiction of the United States District Court was invoked under 28 U. S. C., Sec. 41 (1), and the Declaratory Judgment Act, 28 U. S. C., Sec. 400. The jurisdiction of the Court of Appeals was invoked under 28 U. S. C., Sec. 225. The jurisdiction of this Court is invoked under 28 U. S. C., Sec. 347 (a).

Statutes Involved

Because they are lengthy the relevant portions of the Corporation-Business Tax Act of 1935 involved are set forth in Appendix A of this brief. They are Sec. 418c of the 1935 Cum. Supp. to the General Statutes as amended by Sec. 176F of the 1941 Supp. to the General Statutes and Secs. 419c and 420c of the 1935 Supp. to the General Statutes, Revision of 1930.

Question Presented

The petitioner is a Missouri corporation with its principal place of business in Chicago, Illinois and is engaged in interstate trucking of freight with terminals in Connecticut, and the question presented is whether, under the facts existing in this case, the petitioner is subject to the assessment of taxes against it under Sections 418c, 419c and 420c of the 1935 Cumulative Supplement to the General Statutes, Revision of 1930, on business carried on by it within the State of Connecticut or on revenue derived by it from the State of Connecticut; in other words, whether the Connecticut Corporation-Business Tax Act of 1935, which is based fundamentally on net income allocated and attributed to the business done within the State, is valid as applied to the Spector Motor Service, Inc., a concern engaged in interstate trucking and with terminals in Connecticut.

Statement

Action was brought by the Spector Motor Service, Inc. to enjoin the Tax Commissioner from assessing and enforcing the collection of taxes, interest and penalties under the Corporation Business Tax Act of 1935, as amended.

In 1933 the petitioner was incorporated as a Missouri corporation with its principal place of business in St. Louis, Missouri. At the time suit was instituted, and for some time prior thereto, its principal place of business was located in Chicago, Illinois. Under an Interstate Commerce Commercial Permit it engaged in interstate trucking of freight. In the

development of its business it established terminals in the East where goods were collected, sorted and arranged so that instead of a truck, which had been driven to the East loaded, being driven back empty or with less than a full load, the truck was returned to the West with a full load. This system is called a "two-way-haul".

The petitioner rented terminals for its exclusive use in Chicago, Illinois, New York City, New Britain, Connecticut and Bridgeport, Connecticut, in addition to those already established in St. Louis, Missouri, and New York City. It also acquired agency terminals where it had the use of terminal facilities of carriers in Boston, Springfield and Worcester, Massachusetts, Saylesville, Rhode Island, and Newark, New Jersey. Petitioner operates about 150 trucks in its interstate trucking, almost all of which are leased from the Wallace Transport Company of Illinois, its corporate affiliate, but the drivers of the trucks are employees of petitioner.

The officers of Spector Motor Service, Inc. and their wives own all of the stock of the Wallace Transport Company and the petitioner originally purchased the trucks for the Wallace Transport Company (R. 30). Where shipments smaller than truck loads are involved, these trucks are loaded and unloaded at the terminals; to or from which the goods are brought or delivered by separate pickup trucks, some of which are leased from local truckers and some of which are owned by the petitioner. At the New Britain terminals the petitioner has five such pickup company trucks, all owned by it on conditional bills of sale.

Petitioner employs ten people at the Bridgeport terminal and seventeen at the New Britain terminal. These employees include a general manager, sales solicitor, and loading and accounting personnel. These employees handle the freight originating at and destined to that point. Petitioner has a bank account at Bridgeport for depositing its drivers' receipts, but no Connecticut employee has authority to disburse this money.

The New Britain office handles the accounts receivable for all of the New England territory that materialize as a result

of shipments moving in and out of Bridgeport, New Britain, Springfield, Worcester, Providence, Boston and Haverhill, as all such accounts go into the New Britain office (R. 44). The Chicago office or the St. Louis office bill for all freight charges that are not prepaid in Connecticut. Approximately 50% of all shipments are handled in this manner in Connecticut. Expenses and employees' wages are paid by draft on petitioner at Chicago, although a small amount of cash is kept in New Britain to cover incidental expenses. Local personal property taxes on property upon which petitioner has placed a value of \$1,500.00 are paid by it in New Britain. This property consists of office equipment and, with the exception of the pickup trucks, comprises the entire physical assets of the petitioner in Connecticut for it owns no real estate in the State.

In 1934 the petitioner's landlord at the New Britain terminal required the petitioner to file with the Secretary of the State of Connecticut a certificate of its incorporation in the State of Missouri and a certificate appointing the Secretary its attorney for service of process in Connecticut pursuant to Section 3488 of the General Statutes of the State of Connecticut, Rev. 1930. Petitioner paid the annual statutory fee of \$50.00 and has continued to pay the annual fee. The petitioner never applied for or received a certificate of public convenience and necessity from the Public Utilities Commissioner of Connecticut. The total assessment, including interest and penalties laid against the petitioner for the period from June 1, 1937 to December 31, 1940 aggregated \$7,795.50, as of January 7, 1942. (Par. 17, Finding, R. 103).

From 1936 through 1940 the following percentage and amount of the gross business of the petitioner originated in, is attributable to, and is derived from the State of Connecticut:

1936—47% or \$111,709.97 of a total business of \$233,787.78.
1937—37.86% or \$166,610.06 of a total business of \$440,025.92.
1938—(1st 5 mos.)—47% or \$150,296.95 of a total business of \$318,786.85.
1938—(7 mos.)—50% plus or \$218,471.73 of a total business of \$432,087.39.

1939—42% or \$505,777.47 of a total business of \$1,202,210.35.
1940—34% or \$587,973.59 of a total business of \$1,723,510.65.
(R. 60, 66, 71, 72).

It will be seen that between one-third and one-half of the dollar volume of petitioner's business originates in Connecticut. (Opinion of District Court, R. 95, Par. 7 Finding, R. 101).

The petitioner operated only over routes approved by the Interstate Commerce Commission, of which from 3% to 10% of petitioner's route mileage was within the State of Connecticut. (Par. 8 Finding, R. 101). It carried freight only from points within one State to points within another State, and carried no freight from a point within Connecticut to another point in Connecticut for final delivery. It paid personal property taxes upon its office equipment at New Britain of from \$40.00 to \$60.00. At New Britain petitioner applied at the Rationing Board of the Office of Price Administration for tires and received them (R. 87-94).

The Connecticut Corporation Tax being a franchise tax measured by net income, the Tax Commissioner assessed a tax against petitioner on the business done within the State and the income derived from the State.

The United States District Court granted petitioner's prayer for an injunction against the assessment and collection of the tax and for an adjudication that it was not liable for the tax and rendered judgment in favor of the petitioner on the ground that the tax was an unconstitutional burden on interstate commerce. (47 Fed. Supp. 671). It found that the petitioner was engaged solely in interstate business, that no intrastate business was done by the petitioner and the Act therefore did not apply to it. The respondent appealed to the United States Circuit Court of Appeals for the Second Circuit and the Court reversed the judgment of the District Court. The Court held that the levy upon the petitioner was only of a nondiscriminatory tax upon income fairly attributable to interstate business in Connecticut and as such was valid. A dissenting opinion was filed. (139 Fed. (2d) 809).

Summary of Argument

1. The Act is intended to apply to such corporations as the petitioner.

2. Petitioner carries on its business in large part in Connecticut and in return for the protection given it Connecticut may require it to carry its share of the tax burden and pay a tax based on that part of its corporate net income derived from its activities in Connecticut.

3. Lack of a certificate of public convenience and necessity does not exempt petitioner from paying the tax.

4. A state may tax a foreign corporation engaged solely in interstate commerce.

5. The Act applies to domestic and foreign corporations alike and is not discriminatory.

6. The computation of the tax is fairly calculated to assign to Connecticut that portion of net income derived from Connecticut.

7. The statute was properly applied to the petitioner by the Tax Commissioner.

8. The possibility that other states may tax the petitioner does not excuse it from paying the tax.

9. Conclusion.

Argument

I

The Act is intended to apply to such corporations as the Petitioner.

The Connecticut legislature intended that the tax be applicable to domestic as well as foreign corporations and corporations doing business within and without the state and the Tax Commissioner has so applied the Act since its enactment (R. 76, 77, 80). The Report of the Connecticut Temporary Commission To Study The Tax Laws, 1934, raised by Special Act in 1933 (Vol. 21 Special Laws, p. 1443, R. 76) recommended the tax and therein considered the application of the tax to interstate commerce and set forth its thoughts on this subject on pages 455, 456 (Appendix B). Also see *Stanley Works v. Hackett*, 122 Conn. 547 (1927). In enacting Section 418c the legislature adopted the recommendations of the Temporary Tax Commission, for the Connecticut Corporation Business Tax Act of 1935 places a tax on every corporation "carrying on business in this state" which has to file a report for federal income tax purposes, with certain exceptions not material here, "annually, a tax or excise upon its franchise for the privilege of carrying on or doing business within the state, such tax to be measured by the entire net income as herein defined received by such corporation or association from business transacted within the state during the income year and to be assessed at the rate of two per cent." It made further provision for a minimum tax, more specifically defined in Sections 421c and 422c. Its intention to have the tax apply to corporations such as petitioner is further shown when in 1937 the legislature amended Section 418c to include all corporations having "the right to carry on business in Connecticut as well as those actually carrying on business in the state. Sec. 176F, 1941 Supp. to Gen. Stat., Rev. 1930.

Net income is defined in Section 419c as gross income less the deductions under the federal corporation net income tax

and excepts (1) federal taxes on income or profits, losses of prior years, interest received from federal, state and local government securities and specific exemptions, if any such deductions shall be allowed by the federal government and (2) interest and rent paid during the income year. Section 420c provides that as to those corporations whose trade or business is carried on partly without the state, the tax shall be imposed on a base "which reasonably represents the proportion of the trade or business carried on within the state". Such specific receipts as interest, dividends, royalties and gains on sales of assets are allocated to the state of the principal place of business unless it is clearly established that they are derived from local business or are sales or rentals of tangible property within the state. The tax commissioner is given the authority to promulgate rules and regulations for the allocation of the remainder of net income, except in the case of income "derived from the manufacture, sale or use of tangible personal or real property". The portion to be attributed to "business within the state" in the latter case is determined by an allocation fraction which is simply the mean or average of three ratios: (1) the ratio of tangible property in Connecticut to all tangible property, (2) the ratio of wages and salaries paid within Connecticut to all wages and salaries, and (3) the ratio of gross receipts from business done in Connecticut to all other gross receipts (excluding income from interest, dividends, royalties, gains from sales of intangible assets and gains from sales or rentals of tangible capital assets).

A minimum tax set up as an alternative to Section 418c is provided for in Section 421c and requires the corporation to pay whichever is the greater, either the tax defined in Section 418c or the tax defined in Section 421c of one mill per dollar based on the issued and outstanding capital stock, surplus and undivided profits, reserves, interest-bearing indebtedness, less any deficit appearing in the balance sheet and amounts invested in shares of stock of other corporations. The rate of tax is one mill per dollar on the net amount. Incidentally the rate of tax on corporations doing business in Connecticut is

among the very lowest of the 32 states which impose a franchise tax on corporations in this country. The minimum tax is not involved here but tends to show the intent of the legislature that a fair system be devised for the allocation between business within and without the state and the intent to place upon corporations what it thought would be its fair portion of the tax. Section 422e provides for the allocation of a minimum tax as applied to corporations carrying on business partly without the state. *Lenox Realty Co. v. Hackett*, 122 Conn. 143.

II

Petitioner carries on its business in large part in Connecticut and in return for the protection given it Connecticut may require it to carry its share of the tax burden and pay a tax based on that part of its corporate net income derived from its activities in Connecticut.

The legislation having been enacted with the intent that it apply to corporations like the petitioner, the question of its validity as applied to the petitioner by the commissioner becomes paramount.

The Court will always construe a statute so as to uphold its validity where possible. *Anniston Mfg. Co. v. Davis*, 301 U. S. 337; *Federal Trade Comm. v. American Tobacco Co.*, 264 U. S. 298; *Panama R. Co. v. Johnson*, 264 U. S. 375; *Blodgett v. Holden*, 275 U. S. 142; *Ferguson v. Stamford*, 60 Conn. 432.

Those engaged in interstate commerce must pay their just share of a state tax burden. *Western Live Stock v. Bureau of Revenue*, 303 U. S. 250; *Postal Telegraph-Cable Co. v. Richmond*, 249 U. S. 252; *McGoldrick v. Berwind-White Coal Mining Co.*, 309 U. S. 33; *General Trading Co. v. State Tax Comm'n. of Iowa*, 64 S. Ct. 1028; *Underwood Typewriter Co. v. Chamberlain*, 254 U. S. 113; affirming 94 Conn. 47; *Butler Bros. v. McColgan*, 315 U. S. 501; *Atlantic Coast Line R. Co. v. Doughton*, 262 U. S. 413; *Matson Nav. Co. v. State Board of*

Equalization, 297 U. S. 441; *Memphis Natural Gas Co. v. Beeler*, 315 U. S. 649; *Bass, Ratcliff and Gretton v. State Tax Commission*, 266 U. S. 271.

In *Underwood Typewriter Co. v. Chamberlain*, 254 U. S. 113, affirming 94 Conn. 47, the Court upheld as not violative of the Commerce Clause, Article I, Sec. 8, or of the Fourteenth Amendment a Connecticut statute which placed a tax upon the proportion of the net profits of a foreign corporation earned by operations conducted within Connecticut. The corporation did an intrastate and interstate business. The act involved was Part IV of Chapter 292 of the Public Acts of 1915, Gen. Stat. 1918, Sec. 1391-1395. The tax statutes now before this Court for consideration have taken the place of said statutes. It was a Delaware corporation and had its manufacturing plant in Connecticut, stored all its goods in warehouses in Connecticut, and had one branch office in Connecticut. It had a principal office in New York City. It had branch offices in other states for the sale, lease and repair of machines and sale of supplies. It shipped its goods from Connecticut direct to the branch offices, purchasers or lessees. The Court held, that although the foreign corporation manufactured its product within Connecticut and derived the greater part of its receipts from sales outside the state, the tax which attributed to processes conducted within the state the proportion of the total net income which the value of real and tangible property owned by the Corporation within the state bore to the value of all its real and tangible personal property was not inherently unreasonable and calculated to tax income earned beyond the borders of the state and was constitutional. This case was later considered by the Court with approval in *Memphis Natural Gas Co. v. Beeler*, 315 U. S. 649, 656 (1942) and *Butler Bros. v. McCollgan*, 315 U. S. 501, 507 (1942).

In *Memphis Natural Gas Co. v. Beeler*, 315 U. S. 649, 656 the Court said:

In any case, even if taxpayer's business were wholly interstate commerce, a nondiscriminatory tax by Tennessee upon the net income of a foreign corporation

having a commercial domicile there, cf. *Wheeling Steel Corp. v. Fox*, supra, (298 U. S. 193), or upon net income derived from within the state, *Shaffer v. Carter*, 252 U. S. 37, 57; *Wisconsin v. Minnesota Mining Co.*, 311 U. S. 452; cf. *New York ex rel. Cohn v. Graves*, 300 U. S. 308, is not prohibited by the commerce clause on which alone taxpayer relies. *U. S. Glue Co. v. Oak Creek*, 247 U. S. 321; *Underwood Typewriter Co. v. Chamberlain*, 254 U. S. 113, 119-20; cf. *Bass, Ratcliff & Gretton, Ltd. v. Tax Comm'n*, 266 U. S. 271; *Western Live Stock v. Bureau*, 303 U. S. 250, 255. There is no contention or showing here that the tax assessed is not upon net earnings justly attributable to Tennessee. *Underwood Typewriter Co. v. Chamberlain*, supra; cf. *Bass, Ratcliff & Gretton, Ltd. v. Tax Comm'n*, supra; *Butler Bros. v. McCollgan*, ante, p. 501 (315 U. S. 501). It does not appear that upon any theory the tax can be deemed to infringe the commerce clause." (Parenthetical matter ours.)

It is true that the Spector Company hauled freight from points inside Connecticut only to points outside Connecticut. However, it is in and from Connecticut that it draws its life-blood and the business which sustains it. In 1936 more than 47% of its entire income originated in or was attributable to business done in Connecticut; in 1937, 38%; and during 1938 an average of 48½% or 50% for the first five months and 47% for the last seven months. Its Connecticut business in 1939 was 42% and in 1940, 34% of its total business. The residents and industries of Connecticut furnish petitioner with this large amount of its gross annual business. In Connecticut it maintains and operates two large terminals staffed with its own employees. It owns five trucks which are kept and operated solely in Connecticut. It solicits sales, enters into leases and contracts, pays its employees, pays local taxes, keeps a bank account, handles all accounts receivable for the entire New England territory, uses local trucking facilities under contracts, and, in short, does about all any domestic corporation would do in the operation of its business. In addition, it has qualified itself to do business within the state by registering with the Secretary of the State and paying the annual fee to maintain such qualification.

Instead of maintaining a manufacturing plant as in the Underwood Typewriter Co. case, it maintains terminals. The fact that it leases the terminals and does not own them is immaterial for it exerts full ownership and operational rights over them.

In *General Trading Co. v. State Tax Comm. of Iowa*, 64 S. Ct. 1028, a Minnesota corporation had no place of business or agent located in Iowa and never qualified to do business in Iowa, it merely sent its agents into Iowa to solicit sales orders. The Court upheld the ruling of the state court that the corporation came within the language of the statute and was a "retailer maintaining a place of business in the state".

The petitioner has established a commercial domicile in Connecticut and Connecticut may tax its net income derived from business done within the state if the tax is non-discriminatory. *Memphis Natural Gas Co. v. Beeler*, 315 U. S. 649; *Wheeling Steel Corp. v. Fox*, 298 U. S. 193.

This is so even if all the taxpayer's business is wholly interstate commerce. *Shaffer v. Carter*, 252 U. S. 37; *Wisconsin v. Minnesota Mining Co.*, 341 U. S. 452; *New York ex. rel. Cohn v. Graves*, 300 U. S. 308.

Where a large portion of the income of a foreign corporation is derived from business done in a state, the net income of such business may be taxed if the tax is fairly apportioned and non-discriminatory. *Western Live Stock v. Bureau of Revenue*, 303 U. S. 250; *Wisconsin, et al v. Minnesota Mining & Mfg. Co.*, 311 U. S. 452; *U. S. Glue Co. v. Town of Oak Creek*, 247 U. S. 321; *Memphis Natural Gas Co. v. Beeler*, 315 U. S. 649; *Butler Bros. v. McCollgan*, 315 U. S. 501; *Maison Nav. Co. v. State Bd. of Equalization*, 297 U. S. 441; *Peck v. Lowe*, 247 U. S. 165. It appears therefore that even though it may be found that the petitioner has no commercial domicile in Connecticut, the statutes still apply to it.

In *Ford Motor Co. v. Beauchamp*, 308 U. S. 331, the Ford Motor Company was engaged in both intrastate and interstate business and the Court upheld a Texas franchise tax based on the proportion of capital assets of the Company lo-

cated in Texas and an allocation fraction was used with the result that a figure of \$23,000,000 was reached although the actual value of the Company's assets was only in the neighborhood of \$3,000,000. As pointed out by the Circuit Court of Appeals, this decision leads to the logical conclusion that a substantial tax may be levied on the interstate business if a minimum of intrastate business is done and the Court logically concluded that to say the tax should fail if no intrastate business were discovered regardless of the large amount of interstate business carried on in the state the result would reduce the whole theory of interstate taxation to an absurdity. (R. 119, 120).

A state may even tax the gross receipts of a foreign corporation received from interstate transactions consummated within its borders where it treats wholly local transactions similarly. *International Harvester Co. v. Dept. of Treasury*, 322 U. S. 340.

III

Lack of a certificate of public convenience and necessity does not exempt petitioner from paying the tax.

In qualifying as a foreign corporation with the Secretary of the State, the petitioner became qualified to carry on an intrastate business in Connecticut. With good logic the Circuit Court of Appeals sets forth the reasoning that a certificate of public convenience for the operation of intrastate trucks is at most a police regulation (R. 120). The question of the duty of a foreign corporation to pay this tax should not hinge upon its failure to comply with the state's police regulations, especially as in this case where the petitioner owned property in Connecticut and carried on so extensive a business in the state. This tax is upon the privilege of doing business in a corporate capacity in Connecticut and not upon the business or activities that were the outcome of the privilege. *Home Ins. Co. of N. Y. v.*

State of New York, 134 U. S. 594; *Flint v. Stone Tracy Co.*, 220 U. S. 107; *Michigan v. Michigan Trust Co.*, 286 U. S. 334; *Anglo-Chilean Nitrate Sales Corp. v. Alabama*, 288 U. S. 218 (Dissent of Cardozo, J., Brandeis, J., Stone, J.). Further, Section 176F of the 1941 Cum. Supp. to the General Statutes, Rev. 1930 effective July 1, 1937, amended Section 418c and applies the tax to "every corporation having the right to carry on business in Connecticut." By qualifying to do business in Connecticut, the petitioner became possessed of the "right to carry on business" in Connecticut.

A foreign corporation may be compelled to carry its share of the tax burden even though it increases the cost of doing business. *Telegraph-Cable Co. v. Richmond*, 249 U. S. 252; *Western Union Tel. Co. v. Massachusetts*, 125 U. S. 530; *Adams Express Co. v. Kentucky*, 166 U. S. 171; *Old Dominion S. S. Co. v. Virginia*, 198 U. S. 299; *Pullman's Palace Car Co. v. Pennsylvania*, 141 U. S. 18; *International Harvester Co. v. Wisconsin Dept. of Tax'n.*, 88 L. Ed. 1023; *Northwest Airlines v. State of Minnesota*, 64 S. Ct. 950; *General Trading Co. v. State Tax Comm'n.*, 64 S. Ct. 1028.

IV

A state may tax a foreign corporation engaged solely in interstate commerce.

Petitioner contends that it is engaged solely in interstate commerce and because of this the Act as applied to it by the respondent is unconstitutional.

In *International Harvester Co. v. Wisconsin Dept. of Tax'n.* and *Minnesota Mining & Mfg. Co. v. Wisconsin Dept. of Tax'n.* 88 L. Ed. 1023, heard as one case, the Court held to be constitutional a Wisconsin act which imposed a tax upon domestic and foreign corporations for the privilege of declaring and receiving dividends out of income derived from property located and business transacted in the

state, the payor corporation being required to deduct the tax from the dividends payable both to resident and non-resident stockholders. A New Jersey and a Delaware corporation were doing business in Wisconsin. The dividends were declared at directors' meetings held outside Wisconsin and the dividend checks were drawn on banks outside Wisconsin. The tax assessment was measured by so much of the dividends as were derived from the portion of the corporate surplus attributed by the tax authorities to income earned by the corporation in Wisconsin. It was held that a state has a right to place a tax upon a corporation measured by so much of its earnings from within the state as it distributes in dividends and to make the tax payable upon distribution to the stockholders. *Wisconsin v. J. C. Penney Co.*, 311 U. S. 435.

It is of course true, as petitioner points out, that every case must be decided upon its own peculiar facts. A strong dissenting opinion was written by Cardozo, J., and concurred in by Brandeis, J. and Stone, J. in *Anglo-Chilean Nitrate Sales Corp. v. Alabama*, 288 U. S. 218. A New York corporation qualified to do business in Alabama, having its principal place of business in New York. The only property it owned in Alabama was some bags of nitrate soda which it had imported from Chile and stored in Alabama in the original packages. The goods were sold in Alabama by a salesman who solicited orders. Alabama taxed foreign corporations doing business in the State a franchise tax of \$2.00 on every \$1,000 of the actual amount of capital employed in Alabama. The dissenting opinion upheld the validity of the tax and discussed *Ozark Pipe Line Corp. v. Monier*, 266 U. S. 555; *Crew-Levick Co. v. Pennsylvania*, 245 U. S. 292; *Alpha Portland Cement Co. v. Massachusetts*, 268 U. S. 203; *U. S. Glue Co. v. Oak Creek*, 247 U. S. 321, 328, among other cases. Throughout this opinion, as is the case with numerous opinions of the Court, each case is determined on its own facts. We have been unable to find a case exactly in line with the one at bar.

In *Ozark Pipe Line Corp. v. Monier*, 266 U. S. 555, a franchise tax was laid by Missouri upon foreign corporations doing

business there equal to 1 10th of 1% of the par value of its capital stock and surplus employed in the state. In his dissenting opinion, Brandeis, J. said "But a tax is not a direct burden merely because it is laid upon an indispensable instrumentality of such commerce, or because it arises exclusively from transactions in interstate commerce, *Transportation Co. v. Wheeling*, 99 U. S. 273, 284; *Old Dominion S. S. Co. v. Virginia*, 198 U. S. 299, 306; or, although laid upon net income derived exclusively from interstate commerce, *United States Glue Co. v. Oak Creek*, 247 U. S. 321; *Shaffer v. Carter*, 252 U. S. 37, 57." Also see reference to this case in dissenting opinion in *Anglo-Chilean Nitrate Sales Corp. v. Alabama*, 288 U. S. 218, at page 236.

In a logical and realistic manner, the Court of Appeals has dealt with the problem of State government expenses and has followed the tax dollar from collection to expenditure, drawing the conclusion that if this tax were stated in the Act to go into the highway fund, its constitutionality would be ensured. It referred to the case of *Interstate Busses Corp. v. Blodgett*, 276 U. S. 245, where a Connecticut tax was levied upon foreign corporations of 1c per mile travelled within the state. The proceeds of the tax were used for the maintenance of the highways. Objections to the tax were made on the ground that it discriminated against foreign corporations because the tax did not apply to domestic corporations. Domestic corporations paid an excise tax on their gross receipts and a general state income tax which foreign corporations did not have to pay. The tax was declared non-discriminatory and was upheld. It follows that if interstate passenger motor carriers may be taxed by Connecticut for the upkeep of the highways, interstate trucking concerns should be taxable if the money is to be used to maintain the highways.

As a matter of fact, in its summary of state expenditures, the Report of the Connecticut Temporary Commission to Study the Tax Laws, 1934, at page 56, set forth that from 33% to 47% of the state's revenues go into the highway fund in normal times (Appendix B). Logically, one-third to nearly

one-half of the tax assessed against petitioner would be used for highway purposes.

Petitioner relies heavily upon *Alpha Portland Cement Co. v. Massachusetts*, 268 U. S. 203, (Brandeis, J. dissented) but the facts of this case show that the corporation simply maintained an office in Massachusetts for the headquarters of its travelling salesmen. This office merely sent the orders on. No samples or other merchandise were kept in Massachusetts. There is a great deal more substance to the business done in Connecticut by Spector Company than that done by the Alpha Portland Cement Company in Massachusetts.

Where a non-discriminatory tax is levied by a state upon the net income of a foreign corporation derived from business done within the state, the tax is valid even though the corporation is engaged wholly in interstate commerce. *Memphis Natural Gas Co. v. Beeler*, 315 U. S. 649; *Wheeling Steel Corp. v. Fox*, 298 U. S. 193; *Shaffer v. Carter*, 252 U. S. 37; *Wisconsin v. Minnesota Mining & Mfg. Co.*, 311 U. S. 452; *United States Glue Co. v. Oak Creek*, 247 U. S. 321.

V

The Act applies to domestic and foreign corporations alike and is not discriminatory.

The act applies to both domestic and foreign corporations. The District Court and the Circuit Court of Appeals both held that it was not discriminatory and properly so (R. 97, 122, 123, 124).

Where a state act does not place a discriminatory burden upon interstate commerce merely because it is interstate commerce, Congress and not the courts should determine the extent to which a state may burden interstate commerce. *Welton v. Missouri*, 91 U. S. 275 (Dissent of Black, J.); *McCarroll v. Dixie Greyhound Lines*, 309 U. S. 176 (Dissent of Black, J., Douglas, J., Frankfurter, J.); *J. D. Adams Mfg. Co. v. Storen*, 304 U. S. 307 (Dissent of Black, J.); *Gwin, White & Prince, Inc. v. Henneford*, 305 U. S. 434 (Dissent of Black, J.).

VI

The computation of the tax is fairly calculated to assign to Connecticut that portion of net income derived from Connecticut.

Petitioner contends that as construed by the respondent in refusing to allow rent to be deducted from gross income, the Act violates the Fourteenth Amendment and the Connecticut Constitution as a tax on gross income in interstate commerce.

In *Atlantic Coast Line R. Co. v. Doughton*, 262 U. S. 413, 422, the net operating income was reached by deducting certain operating expenses, (which did not include rent), from gross revenues. This determination of net income resembles the determination of net income as defined in the Connecticut statutes.

"The term 'net income' in law or in economics has not a rigid meaning. Every income tax act necessarily defines what is included in gross income; what deductions are to be made from the gross to ascertain the net income; and what part, if any, of the net income is exempt from taxation. These details are largely a matter of governmental policy. As to them states differ; and there is apt to be difference of view in the same states at different times; and at the same time a different definition of taxable net income for different classes of taxpayers."

Where there is no danger of duplication of taxation by other states or other inequity, a tax measured by gross receipts fairly apportioned to local commerce is valid. *Western Live Stock v. Bureau of Revenue*, 303 U. S. 250; *McGoldrick v. Berwind-White Coal Mining Co.*, 309 U. S. 33.

A state may tax the gross income of foreign corporations doing business in the state though arising from interstate sales. *International Harvester Co. v. Dept. of Treasury*, 322 U. S. 340.

The petitioner's local income was found by the application of an allocation fraction which is the mean of three ratios: (1) the ratio of tangible property in the state to all tangible prop-

erty, (2) the ratio of wages and salaries paid within the state to all wages and salaries, and (3) the ratio of gross receipts assignable to the state to all receipts. Sec. 420c, Sec. 3(b) (Appendix A).

The method employed in determining the percent of the net income which is taxable was determined in the following manner:

	Conn.	Total	%
Tangibles	1,500.00	20,985.16	.071479
Salaries & Wages	29,216.11	487,782.41	.059896
Receipts	587,973.59	1,723,510.65	.341149
Total472524
Percentage in Connecticut (1/3 of total)157508

The method of applying the fraction in determining the amount of the tax due for the year 1940 was as follows:

Net reported Federal	\$10,505.86
Add—Rent Paid	22,859.18
Int. Paid	306.04
Truck Hire	396,448.79
Adjusted State Income	430,119.87
Less Sch. D ¹	3,828.86
Subj. to Apportionment	426,291.01
Apportioned %157508
After Apportionment	67,144.24
Add D Connecticut ²	160.00
Taxable	67,304.24
Tax	1,346.08
Paid	—0—
Balance	1,346.08
Penalty	5.00
Interest	72.69
Total	\$1,423.77

¹ Unearned income outside of ordinary course of business.

² Portion of income not subject to apportionment directly attributable to Connecticut.

As pointed out by the Court of Appeals (R. 113, 125), "the method here employed appears to have produced a result anything but harsh in the light of the large amount of plaintiff's business which originates in this state" as a result of the use of the Connecticut allocation formula inasmuch as the percentage is sharply reduced by the first two ratios, i.e., tangible property and salaries as compared with the third or gross receipts fraction.

As shown in these figures, the Commissioner added to petitioner's federal income and included in the tax base 40% of the amount paid by the petitioner for rent of the trucks belonging to the Wallace Transport Company. The impracticability of establishing a separate ratio for each of the 12,000 corporations in the state was apparent to the Commissioner and with percentages ranging from 37% to 43% based upon the experiences of large truck transportation companies in the state, he established a mean of 40% (R. 76, 77).

The elimination of this 40% would place the petitioner in an advantageous position gained by renting the equipment instead of owning it and would permit tax evasion. *W. T. Grant Co. v. McLaughlin*, 129 Conn. 663; *House of Hasselbach, Inc. v. McLaughlin*, 127 Conn. 507; *Atlantic Coast Line R. Co. v. Doughton*, 262 U. S. 413.

The petitioner has sought by figures of the Interstate Commerce Commission, admittedly not of record in this case, and by a comparison of the Interstate Commerce Commission formula with the Connecticut formula to show that Connecticut is inequitably taxing it. In the Federal formula rent is 100% deductible while in Connecticut's formula rent is deductible only to the extent of 60%. The difference of 40% between the two formulas seriously affects the weight of any persuasive power the petitioner's figures could have.

Also, the petitioner asserts that the State "presumably" did not know until the trial that the petitioner employed and paid the drivers, but that if the State had been aware of this fact all of the amounts paid to Wallace Company would have been disallowed as "rent" and would then have increased the tax

100% over the amounts involved in this case. The "presumption" is entirely lacking in substance because the ratio of allowing 60% reduction for rent and disallowing 40% was arrived at by the Tax Commissioner back in 1935 upon the enactment of the law (R. 80). The Atlantic and Pacific Tea Company raised the issue (R. 76, 78, 80) and their ratio could not possibly have been affected by any such "presumption". The Commissioner interpreted the money paid for the use of the equipment, i.e., the trucks, to be rent and drew a distinction between these payments and normal expenses incurred in the operation of the trucks. A similar distinction is made by the Commissioner respecting road building equipment which is commonly rented by one contractor from another contractor (R. 79). The Great Atlantic & Pacific Tea Co. was satisfied with the ratio and has since continued to pay the tax (R. 77).

The test of any computation of net income is whether or not it is fairly calculated to assign to Connecticut the net income reasonably attributable to the State of Connecticut. If the formula employed meets these standards any constitutional question arising under the Fourteenth Amendment is at an end. *Butler Bros. v. McCollgan*, 315 U. S. 501; *Bass, Ratcliff & Gretton v. State Tax Commission*, 266 U. S. 271; *Ford Motor Co. v. Beauchamp*, 308 U. S. 331.

Furthermore, the burden of attacking the formula was not carried by the petitioner. No evidence was introduced by the petitioner to show that the formula was not calculated to assign to Connecticut that portion of the business reasonably attributable to Connecticut. Now for the first time the petitioner by the use of extraneous matter, i.e., figures of the Interstate Commerce Commission, attempts to attack the Connecticut formula. Thus, with argument and not with evidence petitioner attempts to show that the formula of apportionment has placed a distinct burden upon it resulting in extraterritorial values being taxed.

"One who attacks a formula of apportionment carries a distinct burden of showing by clear and cogent evidence that it results in extraterritorial values being

taxed. See *Norfolk & Western Ry. Co. v. North Carolina*, 297 U. S. 682, 688, 56 S. Ct. 625, 628, 80 L. Ed. 977. This Court held in *Hans Rees Sons, Inc. v. North Carolina*, supra, 283 U. S. 135, 51 S. Ct. page 389, 75 L. Ed. 879, that that burden had been maintained on a showing by the taxpayer that "in any aspect of the evidence" its income attributable to North Carolina "was out of all appropriate proportion to the business transacted by the taxpayer in that State. No such showing has been made here."

Butler Bros. v. McColgan, 315 U. S. 501:

Petitioner contends that the tax operates on a gross income because the rent is actually an operating expense. It sets aside the separate entity of the Spector Company and the Wallace Company and attributes to the Spector Company the losses of the Wallace Company (Ex. 16, R. 57, 58). As stated by the Court of Appeals (R. 126), the entire payment by Spector Company to Wallace Company was for the lease of the trucks and was "perhaps more than fair, on its face, as to the taxpayer concerned" (R. 126, 127). See "Intent of Special Tax Commission", in "Conclusion" of this brief for examples illustrating this point in greater detail.

It seems to us that due to the separate entity of the two companies Spector Company can have no concern with what Wallace Company does with the money paid to it by Spector Company. If the state were to tax Wallace Company as well as Spector Company, the objection would be immediately raised that they are different corporations and under the law separate entities and not subject to the tax.

The petitioner welcomes the legal theory of separate entities where its application has saved petitioner payment of taxes to the various states through which Wallace Company trucks run with Spector Company merchandise, but would cast aside such theory in an attempt to avoid this tax. In arguing that rent of the trucks is an operating expense to Spector Company, it at one and the same time seeks to avoid the taxes of the various states and this tax by the application of inconsistent and conflicting reasoning.

The contention of the petitioner, based upon figures of the Interstate Commerce Commission that the Connecticut tax tends to annihilate interstate transportation is not borne out by the evidence, as is shown by Exhibit 14 consisting of twelve sheets. The actual amount of the tax is small as compared with petitioner's state income. Assuming that the tax were to be paid when due, and no interest and penalties incurred, the amount of the tax is actually small, as is shown by the following figures:

Period	Gross Business Originating in Connecticut	Amount of Tax
Year ending May 31, 1936	\$111,709.97	\$618.36
Year ending May 31, 1937	166,610.06	937.98
Jan. 1-May 31, 1938	150,296.95	1,113.56
June 1-Dec. 31, 1938	218,471.73	698.94
Year ending Dec. 31, 1939	505,777.47	1,407.85
Year ending Dec. 31, 1940	587,973.59	1,346.08
Total	\$1,740,839.77	\$6,122.77

Another contention of the petitioner, based on Exhibit 15 (R. 54, 56) is to the effect that the tax is unfair and inequitable and a violation of due process because the tax increases proportionately with the gross income but has no relation to net income. In the foregoing part of this brief, we have set forth the claim of the State that the tax is based on a fair allocation fraction which affects the business carried on in Connecticut, and to that the respondent adds that it is nothing more than a fair and logical conclusion to assume that if the gross business of the petitioner increases, then its Connecticut business will also show a proportionate increase. Indeed it would be illogical to conclude otherwise, especially because it has been found by the District Court that from one-third to one-half of the dollar volume of petitioner's business originates within the State of Connecticut. (Par. 7 Finding: R. 101, 95).

VII

The statute was properly applied to the petitioner by the Tax Commissioner.

Petitioner claims that its income is not derived from the use of tangible personal property and therefore the allocation was made by the Tax Commissioner by the application of his rules and regulations and not by the statutory allocation fraction; that he used the wrong section of the statute for the allocation; and that the federal and state constitutions were violated because the Commissioner acted in a legislative capacity.

The tangible personal property used by the petitioner is the trucks owned by it and the trucks rented by it, and the tangible real property is the terminals. The operation of the trucks and of the terminals necessitate personal services but one without the other would be useless. In renting and operating the trucks and terminals, the petitioner exercises the rights and privileges of an owner. The petitioner's business comes squarely within Section 420c (3b) and the taxed net income was derived from the "manufacture, sale or use" of tangible personal or real property.

Petitioner contends that the respondent should have applied (3a) of Section 420c instead of (3b) and then relies on *State v. Stoddard*, 126 Conn. 623, and *Connecticut Baptist Convention v. McCarthy*, 128 Conn. 701, in support of its contention that local laws should be followed and that the act failed to set up standards or principles to guide the Commissioner in making rules or regulations. The answer to this argument is given by the majority opinion of the Circuit Court of Appeals where it stated that the Connecticut Court in those cases "relies strongly and almost exclusively on the decisions of the Supreme Court of the United States, and we do not believe it intends to adopt a peculiar local rule". 139 F. (2d) 809, 818. In brief, the respondent properly applied Section 420c (3b) and this argument fails for lack of substance. A method of allocation should not be invalidated unless it is clearly improper. *Butler Bros. v. McCollgan*, 315 U. S. 501.

VIII

The possibility that other states may tax the petitioner does not excuse it from paying the tax.

The petitioner claims that if Connecticut can subject it to this tax, it might suffer multiple taxation from other states and incur great losses, but no evidence of such an occurrence exists and petitioner admits that no other state has imposed such a tax. The vague possibility of such an occurrence cannot excuse the petitioner from its just share of the tax burden. *Northwest Airlines v. State of Minnesota*, 64 S. Ct. 950; *Henneford v. Silas Mason Co.*, 300 U. S. 577; *Gwin-White & Prince, Inc. v. Henneford*, 305 U. S. 434 (Dissent of Black, J.). In *International Harvester Co. v. Dept. of Treasury*, 322 U. S. 340, 348, the Court dismissed such an argument with these words: "But it will be time to cross that bridge when we come to it".

By the ingenious application of figures the petitioner, with the aid of many "ifs", has attempted to show that a like tax "if" applied by all the states through which the petitioner operates would exceed the income of the petitioner. We have answered that the vague possibility of such an occurrence cannot of itself defeat the tax levied by Connecticut. The petitioner, however, does not stop here; it goes on to suppose that "if" Connecticut and all the states should withdraw the 60% allowance for expenses in connection with purchased transportation, the result would be an increase of 150%. The answer is self-evident. Petitioner has itself admitted that no other state has a similar law. Should the states attempt to enact such a law, then at that time the court will consider the problem of multiple taxation. *Henneford v. Silas Mason Co.*, 300 U. S. 577, 587. Also, Connecticut has arrived at the 60-40 ratio after serious consideration and investigation based upon the activities of 12,000 corporations carrying on business in the state, (R. 76, 77), and there is no evidence that Connecticut considers that the ratio was based upon any misunderstanding of the facts; nor is there any indication that Connecticut will withdraw the 60% allowance or change the ratio in any respect.

IX

Conclusion

By invoking the protection of the Commerce Clause, the petitioner has been able to avoid its just share of the tax burden on the premise that it is engaged solely in interstate commerce. It has avoided paying corporation taxes to any state where it transacts business and the record shows the skill displayed by petitioner in avoiding taxation.

Consider the history of this company. A Missouri corporation, with a small capital, it engaged in the very competitive field of transportation shared by railroads and large trucking concerns. It mushroomed from a small company in 1933 to a company having an income of about one-quarter of a million dollars two and one-half years after its inception, and an income of about one and three-quarters million dollars six and one-half years after its inception. The fact that it paid no state corporation taxes contributed largely to its success.

Originally it leased all its trucks. Then it formed an Illinois corporation which it called the Wallace Transport Company. All the stock in this company is owned by two men and their wives, the same two men who own all the stock of the Spector Company (R. 26). The Spector Company established the Wallace Transport Company in business by purchasing all its trucks with money of Spector Company and now designates Wallace Company as the "equipment-owning affiliate" of the Spector Company (R. 30). The drivers of Wallace Company are the employees of Spector Company (R. 32). The Wallace Company has its principal place of business in Chicago. Petitioner changed its administrative office from St. Louis to Chicago. The reason is apparent when it appears that Missouri has no reciprocity with Illinois, Ohio or Indiana, whereas Illinois, Ohio and Indiana do have reciprocity among themselves. The Wallace Transport Company with Illinois license plates does not have to pay the following taxes: (1) Weight and tire tax in Indiana, (2) registration tax in Ohio, and (3) flat rate tax in Illinois.

As a Missouri corporation the petitioner would otherwise have to pay these taxes. The merged relationship of the Spector Company and Wallace Company is frankly admitted by the secretary, treasurer and general counsel of the Spector Company (R. 30-32, 48, 49).

The following illustration sheds some light on the success of the methods used by the Spector Company in avoiding state taxes through the formation of the Wallace Company.

Illinois issues two types of plates, the T plate and the X plate. The T plate is a plate issued whereby the trucker pays two cents a mile for every mile the truck operates in Illinois. The X plate is a plate issued to cars of foreign registry permitting these trucks to run in the State of Illinois. The flat rate charge for the X plate is \$250 a truck (R. 31).

From the border of Illinois to the office of the Wallace Company is a run of only seventeen miles in Illinois. This means a charge of \$.68 a round trip. An officer of the company estimated a truck made four and one-third round trips a month, or paid about \$3.00 a month for each truck under the T plate. This sum amounts to \$36.00 a year tax for each truck under the T plate. If an X plate was issued the yearly cost would be \$250.00 a year per truck (R. 31). Multiply these costs by the number of trucks operated by Wallace Company, all for the benefit of petitioner, and under petitioner's exclusive manipulation, and we have, on the one hand, one hundred fifty trucks at \$36.00 a year tax for operation, or a total tax payment of \$5,400.00, as against one hundred fifty trucks at an annual rate of \$250.00 per truck, or a tax payment of \$37,500.00 per year, resulting in a tax saving of \$32,100.00 on this item alone in one year. This saving is accomplished by the Spector Company on just one of the taxes mentioned above.

The following corporate state fees are magnanimously paid by the Company: \$50 to Connecticut for the privilege of doing business as a foreign corporation in Connecticut, \$75 franchise fee to Illinois for its operations in that state, and \$75 to Missouri for its operations there. Its franchise fee payments in 1940, on a gross business of one and three-quarter millions

of dollars, amounted to \$200. On all its Connecticut business from 1936 to 1940, totalling \$1,740,785.77, it has paid the sum of \$50 each year for five years, or \$250. The reason the petitioner showed a phenomenal growth throughout even the so-called depression years is obvious.⁸

Upon the facts of the case it is fair to state that in line with its desire to avoid paying taxes the petitioner did not seek a certificate from the Connecticut Public Utilities Commission. It places reliance upon the decision of the Connecticut Supreme Court of Errors in *Underwood v. Chamberlain*, 94 Conn. 47, 55. Respondent respectfully submits that the 1935 Act was enacted after this decision was rendered and one of its purposes was to change the law so that corporations such as the petitioner might be compelled to carry their just share of the tax burden. If this were not so, it would be reasonable to believe that the Temporary Tax Commission and the legislature would have left the law as it was.

It is not a fair interpretation of the Commerce Clause that a company manipulated like this can abuse the protection afforded by it. It clearly works to the detriment and extreme disadvantage of competing carriers. The petitioner even considers the \$50 annual fee paid to Connecticut for the privilege of doing business as a foreign corporation therein to be a gift since it anomalously denies doing business in the state.

It is obvious that by virtue of the protecting screen of a claim of burden on interstate commerce, the petitioner has thus far successfully avoided paying its share of corporate taxes to any state in which it does business.

To declare a corporation engaged as the petitioner is engaged in doing business in Connecticut immune from the tax, the result would be discrimination against intrastate businesses which are as much entitled to constitutional protection from discrimination as interstate commerce. *Adams Mfg. Co. v. Støren*, 302 U. S. 307 (Dissent of Black, J.)

Respondent has denied petitioner's assertion that the respondent has never before attempted to apply this tax with references to the record (R. 76, 77, 80). To petitioner's claim

that this is good faith litigation and consequently penalties and interest should not be recovered by the respondent in the event this Court should find petitioner liable for the tax. Respondent refers to Sec. 423c of the Act which provides that a corporation may file with the Commissioner its objections to the tax as applied to it and may suggest a substitute allocation method. The petitioner has never availed itself of the remedy provided by this statute even though the statute permits objections where the allocation subjects it to a tax "on a greater portion of its business than is reasonably attributable to this state". The petitioner is in reality merely seeking to avoid paying a tax and should be treated no differently than any other taxpayer who may be found delinquent under Section 360e of the 1939 Supplement to the General Statutes, Rev. 1930. (See Sec. 360e attached to each Exhibit 14).

THE INTENT OF THE SPECIAL TAX COMMISSION

The special tax commission believed that any corporation having sufficient net earnings should pay a business tax equivalent to 2% of its net earnings from Connecticut business in the event that such net earnings tax would be in excess of the minimum tax. It should be emphasized that this part of the new corporation business tax was measured by net earnings and not by net income. The net earnings of a corporation may be said to be equivalent to the sum of its net income and of the interest on borrowed money and rent on leased real estate which may have been paid by it. The special tax commission pointed out that a business tax should not depend upon the manner of the financial organization of a corporation but rather upon the amount of business done by it. The volume of business carried on by any corporation is not related to the amount of money invested by its stockholders themselves or to the equity of its stockholders in its assets, but rather in the aggregate amount of capital used in the business of that corporation whether that capital be borrowed, rented or contributed by its stockholders.

In order to be as fair and equitable as possible to all corporations a franchise tax for the privilege of carrying on business should be measured by the net earnings of each corporation. An example will illustrate. Four corporations decide to engage in the same kind of business. All have high-grade managership of equal calibre. Corporation A, however, obtains all of its capital of \$1,000,000 to be used in its business from its stockholders alone. Of the amount so obtained, \$500,000 is used in the purchase of land and the construction of a factory thereon; \$300,000 is used in the purchase of machinery; and \$200,000 in the purchase of raw material. At the end of the first year this corporation has net earnings of \$100,000. This amount is also the same as its net income since it has no expenditures for interest on borrowed money or rent on real estate leased by it.

Corporation B obtains \$500,000 from its stockholders, and \$500,000 from the issuance of 4% bonds. Since it also has \$1,000,000 with which to carry on its business, it is able to construct the same sized plant, install the same type of machinery, and have the same amount of raw material as Corporation A. At the end of the first year Corporation B also has net earnings of \$100,000. Since, however, it has to pay \$20,000 to its bondholders, its net income amounts to only \$80,000.

Corporation C obtains \$500,000 paid-up capital stock from its shareholders and instead of buying land and erecting its own factory, it decides to rent real estate having a valuation of \$500,000 in which it installs machinery worth \$300,000 and also has \$200,000 to be used in the purchase of raw material. Corporation C also has \$1,000,000 to work with, and also has net earnings at the end of the first year of \$100,000. Because, however, it has to pay \$50,000 rent for its leased real estate, its net income is only \$50,000.

Corporation D is only able to raise \$200,000 from its stockholders. It rents real estate, however, valued at \$500,000 and also rents machinery placed in that factory of a value of \$300,000. Since it also has a capital of \$1,000,000 with which

to work it is able at the end of the first year to have \$100,000 in net earnings. Because, however, it has to pay \$50,000 in rent on leased real estate and \$30,000 in rent on rented machinery, its net income is only \$20,000.

Since it is the purpose of the net earnings tax base of the present Connecticut corporation business tax act to measure that tax by the amount of business done by each corporation, all four corporations in the example illustrated will pay the same amount of tax. This is as it should be since each has the use of the same amount of capital and each carries on the identic volume of business.

In order to achieve this purpose, however, it is necessary to add to the net income which any corporation may have enjoyed, all amounts which may have been paid by it in rent for the use of leased real estate and of tangible personal property, and in interest payments on borrowed money.

It will be seen that there would have been discrimination against Corporation A in the event that it had been required to pay a corporation business tax of \$2,000 while its competitor B had to pay a tax of \$1,600; its competitor C, a tax of \$1,000; and its competitor D, a tax of only \$400.

Relative to depreciation the theory behind the present law will not warrant the non-deductibility of charge-offs for depreciation. What the special tax commission had in mind was the use of capital, not the consumption of capital.

If charge-offs were not allowed as a deduction there would be discrimination between the corporation owning real estate and the corporation renting real estate. This is due to the fact that unless the owner of the building which is leased to the corporation keeps that building entirely up to date, he will be forced to reduce his rent or to lose his tenant. In order to avoid this he will sooner or later have to spend capital which may be roughly equivalent to depreciation which has been taken on the building. If this is true, it would appear that a corporation which owns its own real estate should be given the privilege of deduction of legitimate charge-offs for depreciation.

There is a fundamental distinction between the consumption of capital and the current use of capital.

The members of and advisors to the special tax commission who went painstakingly into the economic theory behind the present law came to the conclusion that in their essence there is no fundamental distinction between interest and rent. One merges into the other.

Theoretically it should make no difference as to whether the corporation borrows \$500,000 through the issuance of 4% bonds and itself erects its factory plant from such borrowed money, or whether that corporation borrows no money, but rents a factory plant having a value of \$500,000. In the one case the corporation pays interest, and in the other case it pays rent. If the corporation which borrows \$500,000 and puts up its own plant is not careful to set up proper reserves for depreciation to take care of the consumption of the plant erected by it, the day will inevitably arrive when its plant will be valueless, and it will still owe \$500,000. On the other hand if the landlord of the corporation which rents real estate does not take care to see that the real estate originally worth \$500,000 is not properly kept up in every particular and replacements are made for deterioration, depreciation and obsolescence, the corporation so renting will in time either give up its lease, or see to it that the rent paid by it is commensurate with the decreased value of the rented real estate.

In order to be fair to both corporations, although no allowance should be made for the deduction of rent or interest paid by the corporation, legitimate depreciation charge-offs in the case of a corporation owning its own plant should be allowed.

So far as is known there is no state in the union at the present time which has so painstakingly attempted to establish justice and equity as between all corporations in the levy of corporation business taxes as has Connecticut. At the same time a fair income is assured for the state.

For all of the foregoing reasons, the judgment of the Circuit Court of Appeals should be affirmed.

Dated at Hartford, Connecticut,
this 30th day of October, 1944

Respectfully submitted, °

RESPONDENT

By: FRANCIS A. PALLOTTI,
*Attorney General of the State of
Connecticut.*

FRANK J. DiSESA,
*Assistant Attorney General of the
State of Connecticut.*
° His Counsel.

To be argued by:
FRANK J. DiSESA,
Assistant Attorney General

APPENDIX A

Section 418c, 1935 Supplement to the General Statutes:

Sec. 418c. Imposition of tax. Every mutual savings bank,

and loan association or having the right to carry on other corporation or ate which is required to report to the collector of internal revenue for the district in which such corporation or association has its principal place of business for the purpose of assessment, collection and payment of an income tax, except (1) insurance companies, (2) companies principally engaged in the transportation and communication business and subject to the gross earnings taxes under chapters 70, 71 and 72, (3) companies principally engaged in manufacturing, selling or distributing gas, electricity or water and subject to the gross earnings tax imposed under chapter 73 and (4) companies all of whose properties in this state are operated by companies subject to taxation under chapter 70, 71, 72 and 73, shall pay, annually, a tax or excise upon its franchise for the privilege of carrying on or doing business within the state, such tax to be measured by the entire net income as herein defined received by such corporation or association from business transacted within the state during the income year and to be assessed at the rate of two per cent; provided in no case shall the tax be less than the minimum tax as computed under section 421c and provided, when any company taxable under chapter 71 shall engage in any business in this state other than the carrying of passengers for hire in common carrier motor vehicles, such company shall be subject to a tax of two per cent measured by that portion of its total net income derived from such business but shall not be subject to the minimum tax computed under section 421c. Notwithstanding any other provisions of this chapter, any mutual savings bank owning, at the end of the income year, real estate acquired for debt having an assessed valuation of ten per cent or more of its total assets shall, during the calendar years 1936 and 1937, be subject to the lesser of (1) the tax imposed by this chapter and (2) the

tax imposed by chapter 68 as amended by section 355b of the 1933 supplement.

Section 419c, 1935 Supplement to the General Statutes:

Sec. 419c. Deductions from gross income. In arriving at net income as defined in section 417c whether or not the taxpayer is taxable under the federal corporation net income tax, there shall be deducted from gross income all items deductible under the federal corporation net income tax law effective and in force on the last day of the income year, except (1) federal taxes on income or profits, losses of prior years, interest received from federal, state and local government securities and specific exemptions, if any such deductions shall be allowed by the federal government and (2) interest and rent paid during the income year.

Section 420c, 1935 Supplement to the General Statutes:

Sec. 420c. Allocation of net income. If the trade or business of the taxpayer shall be carried on partly without the state, the business' tax shall be imposed on a base which reasonably represents the proportion of the trade or business carried on within the state. The allocation of the base of the tax measured by net income shall be made on the following basis: (1) Interest, dividends, royalties and gains from sales of intangible assets, less related expenses, when received by a company having its principal place of business within the state, shall be allocated to the state and, when received by a company having its principal place of business without the state, shall be allocated without the state; provided, when it can be clearly established that such income is received in connection with business within the state, such income shall be allocated to the state without regard to the location of the principal place of business of the taxpayer, and a similar rule shall apply to such income received in connection with business without the state; (2) gains from sales or rentals of tangible capital assets held, owned or used in connection with the trade or business of the taxpayer but not for sale or for rent in the regular course of business shall be allocated to the state if the property sold or rented be situated in the state prior to the sale or during the

rental thereof, otherwise such gains shall be allocated outside the state; (3) net income of the above classes having been separately allocated and deducted as above provided, the remainder of the net income of the taxpayer shall be allocated and apportioned as follows: (a) Such income, when derived from business other than the manufacture, sale or use of tangible personal or real property, shall be specifically allocated within and without the state under rules and regulations of the tax commissioner; (b) when derived from the manufacture, sale or use of tangible personal or real property, the portion thereof attributable to business within the state shall be determined by means of an allocation fraction to be computed as the simple arithmetical mean of three fractions. The first of these fractions shall represent that part of the average monthly fair cash value of the total tangible property held and owned by the taxpayer during the income year which is held within the state, without deduction on account of any incumbrance thereon but excluding any property the income of which is separately allocated under the foregoing provisions of this chapter. The second fraction shall represent the part of the total wages, salaries and other compensation to employees paid by the taxpayer during the income year from offices, agencies or places of business within the state, provided all such payments shall be assigned to the office, agency or place of business of the taxpayer at which the employee chiefly works or from which he is sent out or with which he is chiefly connected. The third fraction shall represent the part of the taxpayer's gross receipts from sales or other sources during the income year, excluding any income which is specifically allocated under subdivisions (1) and (2) of this section, which is assignable to offices, agencies or places of business within the state, provided such receipts shall be assigned to that office, agency or place of business at or from which the transactions giving rise thereto are chiefly negotiated and executed.

APPENDIX B

Report of the Connecticut Temporary Commission to Study the Tax Laws of the State and to Make Recommendations Concerning Their Revision (as provided by Special Act No. 474 of 1933 and submitted to the Governor of Connecticut on November 9, 1934).

At page 56:

SUMMARY OF STATE EXPENDITURES.

"From 75 to 80 per cent of all state expenditures from 1927-28 to 1932-33 were made for highways, charities and corrections, and education. Highways required from 33 to 47 per cent of all state expenditures; charities and corrections, from 20 to 32 per cent; and education, from 12 to 14 per cent. All other state functions, consisting of general government, protection of persons and property, development and conservation of natural resources, conservation of health and sanitation, public parks, interest, and miscellaneous, accounted for less than 25 per cent of all state expenditures."

At pages 454-456:

ALLOCATION OF NET INCOME.

"The apportionment of net income is one of the principal problems which has been faced by the tax commissioner in the administration of the law. The courts have held that apportionment of net income between the several states in which a taxpayer does business must be reasonable and equitable. An arbitrary allocation fraction will be sustained in the absence of convincing evidence as to its unreasonable effect. With the 1933 amendment to the Connecticut statutes, requiring the use of separate accounting in certain cases in the allocation process, the law has been rendered much less vulnerable than it formerly was. But the danger now is that this allocation method will be demanded by taxpayers whose cost accounting systems are not sufficiently accurate to warrant its

use. The tax commissioner is left with only the vaguest sort of authority to pass upon the accuracy of such systems.

"When the taxpayer is unable to qualify for allocation by the separate accounting method, its income is allocated by formulas which differ from those in use in any other state. This means that the corporation doing business within and without this state is taxed upon more or less than 100 per cent of its net income in all but the most unusual cases.

■ Hans Rees' Sons v. State of North Carolina, 283 U. S. 123 (1931).

A BROADER CONCEPT OF NET INCOME.

DENYING DEDUCTIONS FOR INTEREST AND RENTAL PAYMENTS.

"A business tax should not depend upon the financial organization of a corporation but rather upon the amount of business done. This is not related to the amount of capital invested by stockholders or the equity of stockholders in the assets of the corporation; but rather to the amount of capital used in the business whether borrowed or contributed by stockholders. To satisfy this requirement, it is necessary to redefine net income so as to include payments and accruals to the credit of all contributors of capital—that is, rental and interest payments and accruals as well as net profits.

"It has been shown that only by such a definition of net income can the tax contributions of banks be maintained at somewhere near their former level by means of a valid tax and without substantially increasing the burden of taxes upon other corporations to which the net income or franchise tax upon national banks is tied by the provisions of section 5219 of the federal statutes. But whatever the disposition by the General Assembly of our recommendations for the taxation of banks, we are convinced that the changes which we are proposing at this point in the base of the tax upon miscellaneous corporations will make for a more equitable distribution of the tax burden among these corporations and will at the same time introduce a stabilizing factor into the tax base which will be of great value in itself.

"Such modification, however, raises two questions: Will such a tax be interpreted as a burden upon interstate commerce? Will the apportionment of net earnings between states by means of arbitrary allocation fractions be held unreasonable?

"These questions may be clarified by considering the fact that the returns realized by stockholders upon their investments in a corporation are somewhat analogous to the returns realized by bondholders and lessors. It has long been recognized that stockholders' net income consists not only of fortuitous gains but also of implicit (i.e., non-contractual) interest and rent upon the investment of stockholders.

"It is generally conceded that a tax cannot be imposed upon gross receipts from interstate commerce.¹⁵ On the other hand, it is equally well established that a net income tax can extend to profits from interstate commerce.¹⁶ The base rather than the rate of the tax is thus established as a determining factor in questions of interpretation of the interstate commerce clause. The dicta of the court in the decisions which it has rendered on this score cannot be interpreted too literally. It is obvious that a net income tax so heavy as to encroach severely upon the normal profits of a concern may discourage interstate commerce more effectively than a moderate gross income tax. The probability is that the court would give some consideration to the burden if faced with cases involving extreme rates. But there is no probability that such rates will be imposed by this state. The only question then is the interpretation which the courts will place upon a tax base of the type under consideration.

"There is, so far as we are aware, only one decision in which the Supreme Court has ruled upon a net earnings tax. In the case of *Atlantic Coast Line Railroad Co. v. Doughton* (262 U. S. 413) previously cited, one of the points at issue was the burden imposed upon interstate commerce by a net income tax which,

¹⁵ *Crew Levick Co. v. Commonwealth of Pennsylvania*, 245 U. S. 292 (1917).

¹⁶ *U. S. Glue Co. v. Oak Creek*, 247 U. S. 321 (1918).

in the case of railroads and other public utility companies, was imposed upon a base consisting of interest and rental payments as well as net profits. The tax was upheld by the court.

"We conclude that a net earnings tax could be extended to earnings from interstate commerce because, as far as the burden imposed by it is concerned, there is no fundamental difference between such a tax and a net income tax of the ordinary type, and because such a tax has been specifically upheld by the United States Supreme Court.

"The allocation of net earnings would, we believe, constitute no obstacle to the enforcement of a net income tax framed along these lines. Gross receipts can be allocated with less difficulty than net income among the states in which business is conducted. So too can such expenses as raw materials, wages, insurance, etc. But such overhead costs as interest on indebtedness and salaries can be apportioned among the several states only upon some arbitrary basis. Hence, the fewer such deductions, the simpler becomes the allocation by a separate accounting process.

"The allocation by means of an arbitrary apportionment fraction would, of course, continue to be the common practice, but since there is no fundamental difference, as far as the geographic source of income is concerned, between income which is earned for stockholders and income which is earned for creditors and lessors, there is no reason why an apportionment fraction which will be sustained for an ordinary net income tax will not also be sustained for a net earnings tax. It may be noted that the Atlantic Coast Line case arose over a tax which was apportioned according to the ratio of mileage within and without the state of North Carolina and that the tax was not attacked upon this point." (Parenthetical matter ours.)

SUPREME COURT OF THE UNITED STATES.

No. 62.—OCTOBER TERM, 1944.

Spector Motor Service, Inc.,

Petitioner,

vs.

Charles J. McLaughlin, Tax Commissioner, Walter W. Walsh, Substituted Defendant.

On Writ of Certiorari to the United States Circuit Court of Appeals for the Second Circuit.

[December 4, 1944.]

Mr. Justice FRANKFURTER delivered the opinion of the Court.

This is a suit brought in a United States district court to enjoin the enforcement of a State tax and for a declaratory judgment.

The Connecticut Corporation Business Tax Act of 1933, as amended, imposed on every corporation, not otherwise specially taxed, carrying on, or having the right to carry on business within the State "a tax or excise upon its franchise for the privilege of carrying on or doing business within the State." Conn. Gen. Stat. Cum. Supp. 1937, § 418c, as amended by Conn. Gen. Stat. Supp. 1939, § 354c. Petitioner, a Missouri corporation with its principal place of business in Illinois, is engaged exclusively in the interstate trucking business. It is neither authorized by Connecticut to do intrastate trucking nor in fact does it engage in it. It maintains two leased terminals in Connecticut solely for the purpose of carrying on its interstate business. At the request of its lessor, it has filed with the Secretary of State in Connecticut a certificate of its incorporation in Missouri, has designated an agent in Connecticut for service of process, and has paid the statutory fee. On this state of facts, the State Tax Commissioner determined that petitioner was subject to the Act of 1933, as amended, and assessed the tax against Spector for the years 1937 to 1940. Whereupon petitioner brought this suit in the United States District Court for the District of Connecticut to free itself from liability for the tax. Alleging appropriate grounds for equitable relief, petitioner claims that the "tax or excise" levied by the Act does not apply to it, and in the alternative that, if it should be deemed within the scope of the statute,

the tax offends provisions of the Connecticut Constitution as well as the Commerce and Due Process Clauses of the United States Constitution.

The District Court construed the statute to be "a tax upon the exercise of a franchise to carry on intrastate commerce in the state" and therefore not applicable to petitioner. 47 F. Supp. 671, 675. On appeal the Circuit Court of Appeals for the Second Circuit construed the statute to reach all corporations having activity in Connecticut, whether doing or authorized to do intrastate business or, like the petitioner, engaged exclusively in interstate commerce. It further decided all contentions under the Connecticut Constitution against the petitioner. And so the court below found itself compelled "to face directly the main issue whether the tax is in fact an unconstitutional burden on interstate commerce". 139 F. 2d 809, 813. The dissenting judge thus phrased the issue: "We have before us in the barest possible form the effort of a state to levy an excise directly upon the privilege of carrying on an activity which is neither derived from the state, nor within its power to forbid". *Id.* at 822. It was conceded below that if the Connecticut tax was construed to cover petitioner it would run afoul the Commerce Clause, were this Court to adhere to what Judge Learned Hand called "an unbroken line of decisions". On the basis of what it deemed foreshadowing "trends", the majority ventured the prophecy that this Court would change its course, and accordingly sustained the tax. In view of the far-reaching import of such a disposition by the Circuit Court of Appeals we brought the case here. 322 U. S. 720.

Once doubts purely local to the Constitution and laws of Connecticut are resolved against the petitioner there are at stake in this case questions of moment touching the taxing powers of the States and their relation to the overriding national interests embodied in the Commerce Clause. This is so whether the issue be as broad and as bare as the District Court and Judge Learned Hand formulated it, or whether the Connecticut statute carries a more restricted meaning. If Connecticut in fact sought to bar the right to engage in interstate commerce, a long course of constitutional history, and "an unbroken line of decisions" would indeed be brought into question. But even if Connecticut seeks merely to levy a tax on the net income of this interstate trucking business for activities attributed to Connecticut, questions under the Commerce Clause still remain if only because of what the court below called "ingenious provisions as to allocation of net

income in the case of business carried on partly without the state". 139 F. 2d 809, 812.

We would not be called upon to decide any of these questions of constitutionality, with their varying degrees of difficulty, if, as the District Court held, the statute does not at all apply to one like petitioner, not authorized to do intrastate business. Nor do they emerge until all other local Connecticut issues are decided against the petitioner. But even if the statute hits aspects of an exclusively interstate business, it is for Connecticut to decide from what aspect of interstate business she seeks an exaction. It is for her to say what is the subject matter which she has sought to tax and what is the calculus of the tax she seeks. Every one of these questions must be answered before we reach the constitutional issues which divided the court below.

Answers to all these questions must precede consideration of the Commerce Clause. To none have we an authoritative answer. Nor can we give one. Only the Supreme Court of Errors of Connecticut can give such an answer. But this tax has not yet been considered or construed by the Connecticut courts. We have no authoritative pronouncements to guide us as to its nature and application. That the answers are not obvious is evidenced by different conclusions as to the scope of the statute reached by the two lower courts. The Connecticut Supreme Court may disagree with the District Court and agree with the Circuit Court of Appeals as to the applicability of the statute. But this is an assumption and at best a forecast rather than a determination. *Railroad Comm'n v. Pullman Co.*, 312 U.S. 496, 499. Equally are we without power to pass definitively on the other claims urged under Articles I and II of the Connecticut Constitution. If any should prevail, our constitutional issues would either fall or, in any event, may be formulated in an authoritative way very different from any speculative construction of how the Connecticut courts would view this law and its application. *Watson v. Book*, 213 U.S. 387, 401-402.

If there is one doctrine more deeply rooted than any other in the process of constitutional adjudication, it is that we ought not

¹For instance, petitioner claims that no standard for assessment is set up in the statute so that the executive officer is acting in a legislative capacity in violation of Article II; the failure to allow a deduction for rent violates Section 1 and 12 of Article I. In addition he claims that the tax was assessed under the wrong subsection of the statute, § 420c(b) instead of § 420c(a).

4 *Spector Motor Service, Inc. vs. McLaughlin et al.*

to pass on questions of constitutionality—here the distribution of the taxing power as between the State and the Nation—unless such adjudication is unavoidable. And so, as questions of federal constitutional power have become more and more intertwined with preliminary doubts about local law, we have insisted that federal courts do not decide questions of constitutionality on the basis of preliminary guesses regarding local law. *Railroad Comm'n v. Pullman Co.*, *supra*; *Chicago v. Federated Dairies*, 316 U. S. 168; *In re Central R. Co. of New Jersey*, 136 F. 2d 633. See also *Burford v. Sun Oil Co.*, 319 U. S. 315; *Mercedith v. Winter Haven*, 320 U. S. 228, 235; *Green v. Phillips Petroleum Co.*, 119 F. 2d 466; *Findley v. Odland*, 127 F. 2d 948; *United States v. 150.29 Acres of Land*, 135 F. 2d 878. Avoidance of such guesswork. By holding the litigation in the federal courts until definite determinations on local law are made by the state courts, merely heeds this time-honored canon of constitutional adjudication.

We think this procedure should be followed in this case. The District Court had jurisdiction to entertain this bill and to give whatever relief is appropriate despite the Johnson Act² and *Great Lakes Co. v. Huffman*, 319 U. S. 293, because of the uncertainty surrounding the adequacy of the Connecticut remedy. See *Waterbury Savings Bank v. Lawler*, 46 Conn. 243; *Walcot v. Town of Madison*, 106 Conn. 223, 137 Atl. 742. But there is no doubt that Connecticut makes available an action for declaratory judgment for the determination of those issues of Connecticut law involved here. *Charter Oak Council, Inc. v. Town of New Bedford*, 121 Conn. 466, 185 Atl. 575; *Conzelmann v. City of Bristol*, 122 Conn. 218, 188 Atl. 659; *Walsh v. City of Bridgeport*, 2 Conn. Supp. 88.

We therefore vacate the judgment of the Circuit Court of Appeals and remand the cause to the District Court with directions to retain the bill pending the determination of proceedings to be brought with reasonable promptitude in the State court in conformity with this opinion.

Mr. Justice Douglas concurs in the result. Mr. Justice Black dissents.

² Act of August 21, 1937, 50 Stat. 738, 28 U. S. C. § 41(1). No district court shall have jurisdiction of any suit to enjoin, suspend, or restrain the assessment, levy, or collection of any tax imposed by or pursuant to the laws of any State where a plain, speedy, and efficient remedy may be had at law or in equity in the courts of such State.

